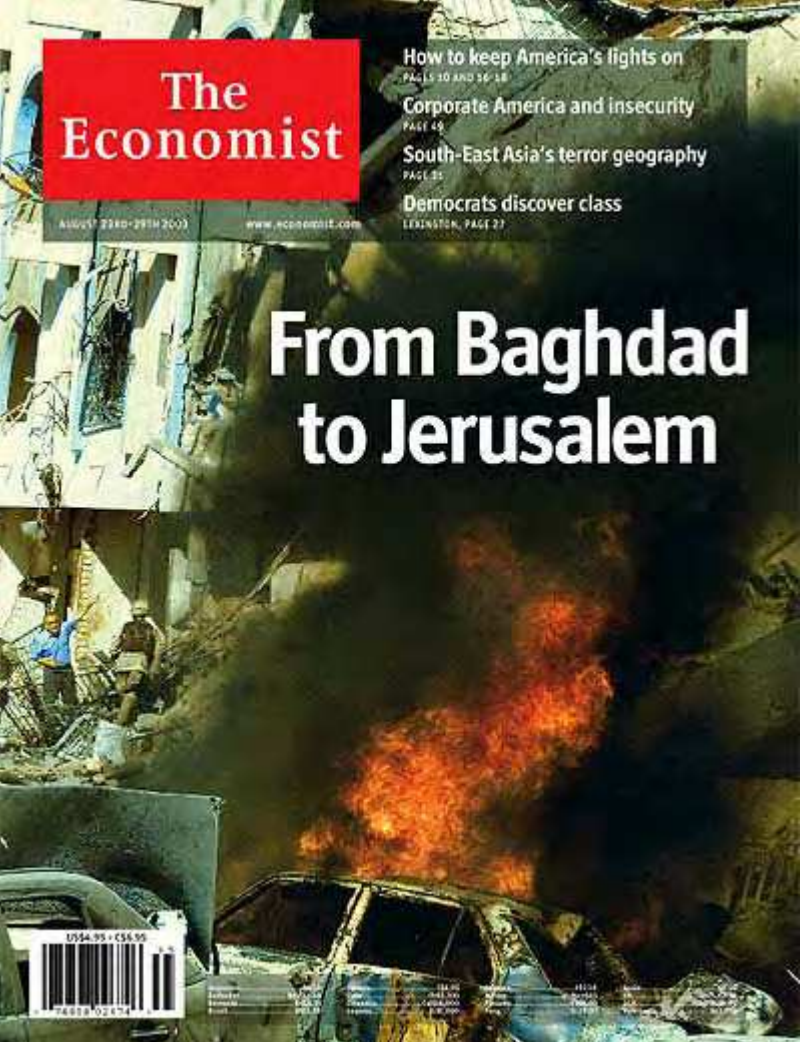
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Politics this week

Aug 21st 2003
From The Economist print edition

A double blow

Reuters

A bomb attack on the UN headquarters in **Baghdad** killed Sérgio Vieira de Mello, the UN representative, and at least 20 other people. Nobody claimed responsibility. A similar number of people, many of them children, were killed by a suicide bomber on a bus in central **Jerusalem**. Both Hamas and Islamic Jihad claimed responsibility. Israel launched raids on Gaza and the West Bank, killing a senior Hamas leader.The Palestinian Authority promised stern action against Islamist groups.

See article: Rethinking Iraq

See article: Slaughter of the innocents

Ali Hassan al-Majid, a cousin of Saddam Hussein and fifth on America's "most-wanted" list, was captured by coalition troops in Iraq. Known as "**Chemical Ali**" for his role in poison-gas attacks on Kurdish villages, he was previously thought to have been killed by coalition bombs.

A Moroccan court sentenced four men to death for their part in the suicide bombings that killed 45 people in **Casablanca** in May. Eighty-three others were sentenced to prison, many of them for life.

See article: After the Casablanca bombing

Kurdish fighters in **Iraq** captured Taha Yassin Ramadan, Saddam Hussein's vice-president. Iraqi insurgents started fires on Iraq's main oil-export pipeline, an act of sabotage that may cost the country $7m a day for several weeks.

After Libya arranged for $2.7 billion to be paid to the families of the 270 people killed in the **Lockerbie** air explosion in 1988, the UN Security Council started moves to lift its (suspended) sanctions on Libya. But the families will not get the full amount until America lifts its bilateral sanctions, which it is not prepared to do.

See article: Libya and sanctions

After the departure of **Liberia's** former president, Charles Taylor, representatives of the Liberian government, rebel groups and unarmed opposition groups met in Ghana and appointed Gyude Bryant, a businessman, to lead a proposed interim government.

See article: Giving peace a chance

Idi Amin, the former Ugandan president notorious for numerous atrocities, including having political prisoners beat each other to death with sledgehammers, died in exile in Saudi Arabia.

See article: Mourning Idi Amin

Despite an earlier promise to release all political prisoners, **Sudan's** government decided to detain the most prominent one, Hassan al-Turabi, an Islamist leader arrested in 2001, for another six months.

Fourteen **European hostages** captured six months ago in Algeria were set free. They had been held by a radical Islamic group. It remained unclear whether a ransom had been paid to secure their release.

Separation from power

The House Energy and Commerce Committee announced that it would hold hearings next month on the power **blackout** that hit the American and Canadian north-east. Spencer Abraham, the energy secretary, announced that his department would also hold an investigation.

See article: The fallout from the blackout

Gray Davis, **California's** governor, admitted that he had made mistakes on big issues in the past but asked voters to halt what he called “a right-wing power grab” in the state's recall election. The latest poll showed that 58% of the electorate would vote to remove Mr Davis; Arnold Schwarzenegger held a small lead over Cruz Bustamante, the Democratic lieutenant-governor, in a field of 135 candidates vying to replace the governor.

Wesley Clark, the former supreme commander of NATO and a fierce critic of the war in Iraq, fuelled speculation that he may run for president by saying he had discovered “an enormous hunger for leadership” on a recent tour of American cities. Supporters launched a TV campaign urging him to join the race.

Inside politics

AFP

Pauline Hanson, who had a brief success in **Australian** politics in the 1990s on an anti-immigrant programme, was jailed for three years in Brisbane for electoral fraud. She said she would appeal.

China said it opposed the use of sanctions on **Myanmar**, which has been widely criticised for detaining the country's democracy leader, Aung San Suu Kyi. The United States, the European Union and other countries have taken tough measures against Myanmar's ruling junta.

An Indonesian called Hambali, arrested in Thailand, was being questioned by American intelligence officials about **terrorist attacks** throughout South-East Asia.

See article: Terror in South-East Asia

Taking the heat

As information grew about the number of deaths due to the recent heatwave, **France's** director of public health had to resign over the authorities' slow reaction. The health minister did not, but remains under pressure.

See article: Europe's recriminations after the heatwave

Italy's football season, due to open this weekend, looked headed for chaos, after clubs ran to court to avoid relegation or get others relegated and seize their place. The government brought out a decree saving several from the drop, and thus adding four clubs to Serie B.

See article: Italian football and the law

The Blair government took some blows from **Britain's** Hutton inquiry into the suicide of a ministry of defence scientist who had told journalists that an anti-Saddam government dossier had been “sexed-up” last autumn. But Alastair Campbell, Tony Blair's chief spin doctor, denied doing anything of the sort, as the BBC had claimed.

See article: Everyone, and no one, on trial

Hamburg's mayor fired his interior “minister”, Ronald Schill, once famous as a ferocious judge, then

founder of a party of far-right views. Mr Schill had threatened to denounce the mayor as conducting a gay affair with another minister.

War in the air

George Bush announced that American spy planes would once again help **Colombia's** government spot and shoot down drug planes. This policy was halted after an American missionary and her baby were killed when their plane was downed in Peru in 2001.

See article: American aid and the drug war

Tens of thousands of opposition supporters in **Venezuela** handed in 3.2m signatures calling for a recall referendum on the presidency of Hugo Chávez. Under the constitution, this can take place any time after the mid-point of his term in office, which fell on August 19th.

AFP

See article: Why Venezuela may follow California

Argentina's senate voted to annul two amnesty laws which halted trials of military officers for abuses during the 1976-83 dictatorship. The issue is now likely to go to the Supreme Court.

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Business this week

Aug 21st 2003
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Close, but no cigar

Hewlett-Packard made a profit of $297m in the latest quarter, falling short of expectations but still an improvement on a year ago, when losses topped $2 billion. The disappointing news pushed HP's shares down by 10%, and led the overall market lower.

Dell, the world's biggest personal-computer maker, is to cut prices by as much as 22%. The cut is aimed at Hewlett-Packard, which has just raised its PC prices in an attempt to rebuild profitability.

Deutsche Asset Management, part of **Deutsche Bank**, was fined $750,000 by American regulators over its role in the merger between Hewlett-Packard and Compaq. The fund manager, which had a stake in HP, cast proxy votes in favour of the merger without informing clients shortly after Deutsche Bank had agreed to help HP pay for the merger. It had previously opposed the deal.

Payback time

Pierre Bilger agreed to forgo a *euro*4.1m ($4.6m) severance package that was his due after quitting as boss of Alstom, a French engineering group, earlier this year. His selfless refusal to be rewarded for failure should be seen in light of shareholders' outrage. And the French government, criticised for its recent bail-out of Alstom, may also have put pressure on Mr Bilger.

The cast list for the purchase of **Vivendi Universal's** American media interests was apparently cut to three, and it seemed that the French group's hopes of raising $14 billion from the auction were unlikely to be met. Liberty Media and Edgar Bronfman were said to have submitted revised bids; rumours of a merger between NBC and Vivendi's media arm also surfaced.

Swiss, an airline formed from the rump of Swissair after it went under last year, announced that losses in the second quarter had narrowed to SFr133m ($100m). Restructuring costs could still put Swiss out of business, but its shares rose as rumours persisted of an eventual takeover by British Airwaysor Lufthansa.

Nestlé's profits fell by over 50% to SFr2.8 billion ($2.1 billion) in the first half of 2003 compared with a year ago, but the world's biggest food firm predicted that business would improve in the second half.

The bank paid on

Jack Grubman, once Salomon Smith Barney's star telecoms analyst, is still on the payroll, despite having left the investment bank with a $33m pay-off amid accusations that the bank's research was aimed at securing investment-banking business. Citigroup, Salomon's owner, is paying him $200,000 a year to help its legal team fight lawsuits from aggrieved investors.

After losing billions last year, **Zurich Financial Services** had cheerier news. The beleaguered Swiss insurer made a profit of $701m in the first half.

Big Asian banks took a tentative step towards a cross-border alliance. **Sumitomo Mitsui**, a large Japanese bank, signed a co-operation pact with **Bank of China** and **Korea Exchange Bank**. The deal, though limited in scope, could lead to wider agreements.

Space race

Loral Space & Communications, a bankrupt American satellite firm, was informally offered $1.5 billion for its satellite fleet and construction business by EchoStar Communications. Loral has already agreed to sell its American satellites to Intelsat for $1 billion.

Bidders for **Drax**, Europe's biggest (and possibly brokest) coal-fired power station, emerged by the sackload. BHP Billiton, an Anglo-Australian mining firm, and MMC, an American specialist in hard-up power stations, are said to be interested in varying portions of Drax's debt. Goldman Sachs and International Power have made offers. RWE, a German utility, is also named as a suitor.

Generic competition

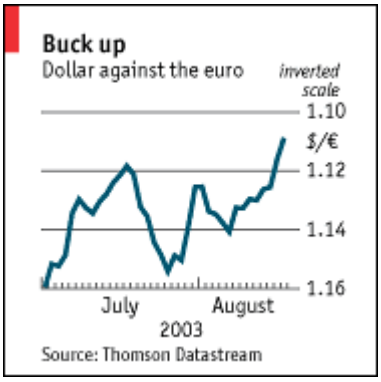
AstraZeneca faced another assault on Prilosec, its anti-ulcer blockbuster drug. **Novartis**, a Swiss rival, announced that it would become the third company to launch a generic version of the big-seller.

Pfizer will also face stiff competition after American regulators gave approval to **Levitra**, a rival to **Viagra**, produced by Bayer and GlaxoSmithKline.

Merck spun off Medco Health Solutions, its pharmacy-benefits manager which negotiates wholesale drug sales. Medco had been accused of favouring Merck's products. Merck shareholders will get a proportionate amount of Medco shares and Medco will pay Merck $2 billion directly.

Econ 101

The **dollar** hit a four-month high against the euro. Recession in some euro-area economies and negligible overall growth compared unfavourably with America's strength, raising demand for the buck.



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Bombs in the Middle East

From Baghdad to Jerusalem

Aug 21st 2003
From The Economist print edition

After the bombs, it is still possible to be bullish about Iraq. Palestine is another matter

AFP

THINGS were not exactly running like clockwork beforehand. But this week's atrocities in Baghdad and Jerusalem have rocked America's Middle East policy on two flanks at once. Whoever blew up the United Nations headquarters in Baghdad on August 19th, killing its senior diplomat and a score of others, also blew away the illusion that its American and British occupiers were close to bringing peace to post-Saddam Iraq. The same day's suicide bombing in Jerusalem—more than a score of men, women and children blown to bits on a bus—may well have torn a lethal hole in the international “road map” along which Israelis and Palestinians were supposed to limp to peace.

At such times, the first reaction is despair. It can begin to seem that whether it be in Iraq or Palestine, and whether it is strong or frail, the hope of peace can always be uprooted by a determined suicide bomber bent on slaughter. Sound policy needs, however, to recognise the differences between the two places. In Iraq, even after this bitter week, the outlook for the longer run is good. The basic political conditions there point to the possibility, even the probability, of a peaceful and prosperous future. In Palestine those conditions do not yet apply, and the United States needs to adjust its policy accordingly.

In Iraq, not as bad as it looks

So what is so promising about Iraq? It is, of course, easier to add up the negatives. The occupying powers have been too slow to switch on the lights, or restore the water, or make the streets safe, or explain how they intend to transfer authority to Iraqis, or when they intend to go. On top of this comes mounting evidence that American-occupied Iraq is turning into a new magnet for all those zealous Islamic extremists yearning to wage global *jihad* against the infidel, just as they did (with American help) against the Soviet occupiers of Afghanistan in the 1980s. The number of such foreign *jihadis* may be small, but they, or remnants of the former regime, or the two together, had proved their effectiveness even before this week's bombing. Last week, saboteurs dealt a heavy blow to Iraq's already prostrate economy by blowing up the country's main oil-export pipeline to Turkey.

None of these difficulties should be made light of. As we argued last week in this space, America needs to invest more money, attention and ingenuity in Iraq. But nor should the difficulties be puffed up into a case for losing hope. For the present, the chances of Iraq under American occupation becoming like Afghanistan under the Russians are remote. The *jihadis* in Iraq, unlike those in Afghanistan, do not have a superpower to arm them. They do not have an equivalent of Pakistan from which to mount their

attacks. Nor are they likely to acquire one: even those neighbours who may wish to see America fail in Iraq have an even stronger wish not to provoke that country into lashing out at them.

However, the strongest reason by far for optimism in Iraq rests on none of these things. It rests on the fact that, for all their post-war disillusionment, the majority of Iraqis still want for their own country what the Americans also say they want for it: rapid economic recovery, the removal of all vestiges of the old regime, and an orderly transition to democracy. The Americans are not scoring high on effort or competence. But their basic claim to have come to Iraq to remove a threatening dictatorship and then depart remains broadly plausible because it remains broadly true. That is why the American presence is still supported not only by the Kurds but also (on the understanding that the presence must not be indefinite) by the senior clerics who wield such influence over the Shia majority. For the time being, most of the saboteurs, and most of the *jihadis*, appear to be Sunnis. This could obviously change; and preventing it from changing should be a prime American aim. But by taking their war to the UN, whose role in the country many Iraqis would like to enlarge, the terrorists may simply have alienated potential supporters.

The conflict between Israel and the Palestinians is in many ways much less tractable. Nothing can justify the bloody and indiscriminate terrorism that has become the trademark of the Palestinian Islamists of Hamas and Islamic Jihad during the *intifada*. The declared aim of these groups—Israel's total extirpation—is no less foul than their means. The difference from Iraq is that Islamic extremism in Palestine has latched itself on to a genuine movement for national liberation.

In Palestine, worse than it looks

In Iraq, the case for optimism is that most Iraqis are liable to withhold their support from the *jihadis* because most of them are still willing to believe that the Americans mean it when they say they intend eventually to leave. In Palestine, for all the fine words of George Bush and the “road map” about the imminence of an independent Palestinian state alongside Israel, almost no Palestinians expect Israel voluntarily to give up the West Bank and Gaza to make this possible.

Whose fault is that? The blame game in Palestine has revolved in circles both vicious and tedious for more than a century. In this present round, neither side emerges with credit. Israel complains that although the road map calls plainly on the Palestinian Authority to disarm and dismantle the terrorist groups, it has failed to make any serious effort to do so. The Palestinians retort that this would plunge them into a civil war at a time when Israel gives no serious sign of being willing to freeze, let alone dismantle, the Jewish settlements that have spread through the occupied territories since 1967 and obstruct the emergence of a free Palestine.

This, alas, is not just a matter of Israel failing to get its message across. Many members of Ariel Sharon's ruling coalition oppose the idea of an independent Palestine and say frankly that they will do whatever they can to thwart it. America needs to make it plain that these Israelis will not get their way. It is right to denounce outrages like the one this week in Jerusalem. But if America is to build a new Middle East it must give the Palestinians the same hope as the Iraqis that foreign military occupation really will soon come to an end.

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Electricity in America

How to keep the lights on

Aug 21st 2003
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Politics, not lack of power, is to blame for the great American blackout

AFP

“WE'RE the world's greatest superpower but we have a third-world electricity grid!” Thus Bill Richardson, once Bill Clinton's energy secretary and now governor of New Mexico, as the lights went out across north-eastern America last week. He exaggerates, but he is right to suggest that the richest country in the world needs better infrastructure.

How did it happen? Industry officials and regulators are sifting through reams of data, computer logs and other evidence to work out why so wide a region was plunged suddenly into darkness (see article). The specific sequence of events that triggered the blackout could take weeks to sort out. But the underlying culprit is already clear: America's half-baked, half-hearted approach to electricity deregulation.

The past decade's highly politicised reform of electricity in the United States has produced a bizarre regulatory system that is obsessed with supply rather than delivery or demand, that veers between over- and under-regulation, and that ultimately stifles the investment needed to keep the lights on. This has left America's power grid creaking and vulnerable to collapse—or, worse, to terrorist attack. Without pre-emptive action, it could easily happen again.

The Bush administration and Congress need to rethink how the country's electricity is governed. As they do so, they should study lessons from Britain and other countries that have forged ahead more successfully in energy liberalisation. In turn, putative electricity reformers around the world would do well to avoid America's costly mistakes.

One problem with America's approach is that it focuses on boosting supply but largely ignores how that supply will reach consumers. Consider the White House's energy strategy, which invoked the notion of a supply crisis to justify drilling for oil in pristine bits of Alaska and to offer various subsidies to coal, gas and nuclear power. Or look at the energy bills knocking about in the House and the Senate, laden with pork-barrel projects to help politically favoured sources of energy. In fact, there was never any supply crisis: there is plenty of oil, gas and coal left in the world. Generating capacity is not scarce in America either. Moreover, drilling all the oil in Alaska and installing windmills across the mid-west would still not have stopped the grid from going down last week.

America's so-called energy “deregulation” has increased the flow of power through the grid but given little incentive for investors to upgrade the grid itself. In contrast, Britain's system gave strong incentives to the grid operator, National Grid, to invest; in relative terms, the company has spent ten times as

much to upgrade the power grid in England and Wales as its counterparts in America did in the 1990s. This suggests that the way forward is not, as some politicians are demanding, massive state-led intervention or a government takeover of the grid. Instead, Congress should strengthen the Federal Energy Regulatory Commission (FERC) and make grid-reliability standards mandatory, but leave investment to the private sector. The way to do this is to cut through the morass of conflicting state and federal regulations and develop clear rules for investors to get them to finance an upgrade to the grid.

Another lesson for America from across the Atlantic is not to allow illiberal voices and entrenched monopolists to seize on the power cuts as a reason to stall market reforms. Such lobbies were quick to use blackouts in California and the Enron collapse to attack deregulation. But experience with electricity liberalisation in Europe, which only two months ago agreed to speed up reforms, makes clear that this argument is nonsense. Deregulation, if done properly, is far better than state monopoly control. Consider this: America's power industry spends less than half a percent of its annual revenues on research and development. With so little innovation, it is no wonder that America is stuck with an unreliable, old-fashioned and overwhelmed grid. Liberalisation promises not only greater efficiency and lower prices in the long term, but also greater choice and more technological innovation.

European experience also shows that deregulation must not mean no regulation. Nor can it mean a regulator who arbitrarily intervenes in private decisions (California's regulators not only froze retail prices while making utilities pay volatile wholesale prices but also discouraged them from hedging the resultant risk through futures contracts) or ignores its supervisory duties (the FERC failed lamentably to rein in the excesses of Enron). The right balance is not easy to strike, but it is not impossible: Britain's robust approach to energy regulation has cut prices, improved choice and yet ensured secure supply. Paradoxically, the transition to competitive markets can necessitate a greater, albeit carefully circumscribed, role for a regulator.

Enter micropower

The final lesson from the great American blackout may be the most important. The chief failing of today's energy system is its Stalinist, command-and-control architecture, conceived when power flowed only from giant plants to distant consumers. This made sense when ever-bigger plants seemed to offer ever-greater economies of scale, but the billions of dollars wasted on nuclear power have made clear the folly of taking that maxim too seriously. Not only is the old-fashioned, centralised approach inefficient and dirty, it is also vulnerable to disruption—from lightning, ineptitude or terrorists. As distributed generation technologies such as fuel cells and micro-turbines have matured, the conventional wisdom is being turned on its head: day by day, micropower is on the way to becoming cheaper, cleaner and more reliable than megapower.

Forging ahead to a truly liberalised market—a move that should include liberalising retail markets, removing unfair obstacles to hooking up micro-generators to the grid, and giving consumers better price signals—would greatly spur distributed generation. A system based round this would be a lot safer, rather as distributed computing networks such as the internet are much harder to shut down than the centralised systems of old. If America learns the right lessons from its power cut, it might spur the transformation of today's creaking grid into a robust and reliable energy internet of the future.

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Budget deficits

Dicing with debt

Aug 21st 2003
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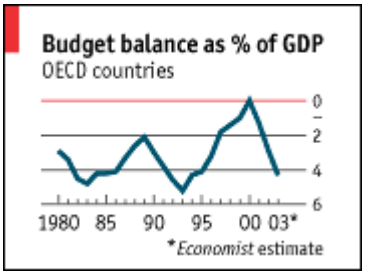
Budget deficits are fine in bad times—as long as they are cut in good times



GEORGE WASHINGTON once said that "there is no practice more dangerous than that of borrowing money." If so, governments around the world are playing with fire. In 2000 the budgets of governments in rich countries were, as a whole, roughly in balance; most, with the exception of Japan's, had surpluses. This year those same governments are borrowing more than 4% of GDP, lifting their outstanding debts to a hefty $20 trillion—equivalent to roughly $60,000 for every household. Are they storing up trouble for the future?

The jump in borrowing partly reflects the economic slowdown, which has caused tax revenues to dwindle and welfare benefits to swell. But some countries, notably the United States and Britain, have also had a large stimulus from tax cuts and spending increases. As a result, the ratio of public-sector debt to GDP, which had been falling in the second half of the 1990s, is now climbing in many countries ()see page 60. Things look worse still if one adds in the future liabilities of public-sector pension commitments as populations age.

There are three reasons why rampant government borrowing might be a cause for concern—but none is very convincing right now. One is that bigger deficits push up interest rates, crowding out private investment and curbing growth. That is true in the long run, but not when economies have a huge amount of slack and firms have little desire to borrow. A second worry is that governments may be tempted to create inflation to erode the real burden of debt. Today, inflation is, if anything, too low in some countries, so that too is hardly a pressing concern. And third, some argue that a fiscal stimulus is a waste of money: it will not boost demand, because as public debt mounts households expect taxes to rise, so they save more and neutralise the stimulus. Yet Japan's experience suggests otherwise: even as its government debt has soared over the past decade, household saving has fallen sharply.

Whether a budget deficit is good or bad may depend more upon what shape tax cuts or spending increases take. America's recent tax cuts are in theory the right medicine to support its economy, but they have failed to give maximum stimulus per dollar of revenue lost, so they will increase the long-term budgetary costs. Tax cuts aimed at low earners are more likely to be spent than handouts to the rich, for they save more.

Discipline, not flagellation

There is nothing wrong with a budget deficit in recession so long as governments move into surplus in the next boom. But raising taxes when an economy is still weak—as some are urging on both Japan and Germany—is suicidal. The Japanese government prematurely raised taxes in 1997: it helped to push the economy back into recession. Europe's stability pact is far too rigid in demanding deficit cuts now. However, the euro area has less room to ease fiscal policy than America, because America went into this downturn with a structural budget surplus; the euro area's was already in deficit.

The real lesson is that governments should have been more prudent during the boom and run bigger budget surpluses. Governments did tighten their belts in the 1990s, but less than they should have done. The decline in structural budget deficits was exaggerated by a temporary surge in capital gains tax due to the stockmarket bubble, especially in America. Europe's finances were flattered by a windfall in revenue from the auction of third generation mobile-phone licences. When the next boom is under way governments must this time don genuine hairshirts, not silk-lined ones.

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China's nuclear diplomacy

Learning the hard way

Aug 21st 2003
From The Economist print edition

The spread of nuclear weapons harms China's security too

Reuters

FOR years an unrepentant supplier to rogue bomb- and missile-makers the world over, China is evidently having second thoughts about how many nuclear-armed neighbours it can handle. With Russia, India and Pakistan on its doorstep, it seems to have decided that North Korea, which says it has a couple of bombs and is busy making more, is one too many. Leaving that prickly regime to its provocative ways could also touch off a dangerous chain reaction, with South Korea, Japan and Taiwan all able to turn nuclear at speed.

Next week China will host six-way talks in Beijing to help America, South Korea, Japan and Russia start to lever North Korea out of the nuclear business. North Korea wanted to talk only to America, so China, its one semi-friend, had to press it to soften its threats and sit down with everyone else. Helping America tackle a proliferation problem, rather than making it worse, marks a welcome diplomatic about-face for China. Yet its conversion to the anti-proliferation cause is still limited—and comes dangerously late.

Until recently China regarded promises to curb its nuclear and missile sales as little more than concessions to America, to be torn up whenever relations turned sour. Its nose-thumbing deals with Pakistan, Iran, Syria and others had plenty of nuisance value and brought in dollops of cash. Only now are China's leaders realising the cost to their own security.

Extensive Chinese nuclear help to Pakistan over the years (including handing over the complete design for a missile-mountable warhead) gave India its excuse in 1998 to test its weapons and declare itself a nuclear power, bringing a new hair-trigger instability to the India-Pakistan rivalry just across China's frontier. Worse, China's former weapons apprentices are now in business for themselves. Pakistan supplied North Korea with the technology for the secret uranium-enrichment programme that sparked the latest nuclear crisis there (the North had previously been caught illicitly producing bomb-useable plutonium); there are fears, too, that it may have passed on the blueprint for that Chinese warhead. Originally China, but more recently Pakistan and North Korea, have helped Iran with its covert nuclear and missile programmes.

Still dragging its feet

By helping to contain the nuclear threat from North Korea, China is undoing some of the damage its past promiscuous sales have caused. Yet it could do a lot more. Despite a string of new export-control laws,

Chinese firms are still supplying illicit weapons, technology and materials. Other governments have difficulty tracking sales by unscrupulous weapons dealers too. Yet in China many of the firms dealing in sensitive technologies still enjoy cover from their connections with high-ups inside the armed forces or the Communist Party.

As for North Korea, it has got away with its nuclear defiance thus far because China, which supplies most of its food and energy imports, still refuses to contemplate sanctions that would force its boss, Kim Jong Il, to choose between his weapons and his regime's survival. Instead other governments, led by America, have started to intercept North Korea's shipments of missiles, drugs and counterfeit currency that finance Mr Kim's expensive nuclear habit.

China is unhappy at that. Yet it has blocked all efforts at the UN Security Council to censure North Korea, even when earlier this year it became the first signatory to pull out of the Nuclear Non-Proliferation Treaty. By letting North Korea break the NPT with impunity, however, China encourages others—Iran is the next big headache—to think they can get away with it too. If China has learned anything from the North Korean crisis, it ought to be that unchecked proliferation harms China's interests as much as anyone's.

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About sponsorship

Libya and sanctions

Allow Qaddafi his probation

Aug 21st 2003
From The Economist print edition

What logic is there in ending UN sanctions if the American ones remain in place?

AFP

IS IT time to bring Libya, that serial offender, in from the cold? Only a very small step of the way, replies America. A compromise is often handy but this one doesn't make a lot of sense.

The Libyan government claims that it has done what was demanded of it. It has put an agreed $2.7 billion into an escrow account to compensate the families of the 270 people who lost their lives when a Pan Am airliner exploded over Lockerbie in 1988. It has accepted “responsibility for the actions of its officials” (two Libyan intelligence agents were tried for the atrocity, one of whom was found guilty and imprisoned, the other acquitted). And it has reiterated its commitment to the war on terrorism.

In return, the UN is preparing to lift the sanctions (a travel ban and an embargo on certain spare parts) imposed in 1993 but suspended in 1999, when Libya handed over the two agents for trial. A hitch may cause a bit of a delay: France wants some correlation between the Lockerbie blood-money and the much less generous deal it made with Libya over the bombing of a French airliner in 1989. But the lifting of UN sanctions is now a formality. What remain at stake are America's separate and harsher sanctions, imposed in the early 1980s and hardened from time to time, and Libya's established place on the State Department's list of terrorism's usual suspects.

America has agreed that the UN sanctions should go, says Colin Powell, so that the bereaved families can get their settlement—though, in fact, they will get only half the $10m they have each been promised if America's bilateral sanctions continue. And these sanctions will remain, the secretary of state insists, until Libya becomes more democratic, stops meddling in African conflicts, and convinces the world that it is not pursuing weapons of mass destruction.

Sanctions, and the chance of getting rid of them, have almost certainly pulled Muammar Qaddafi in a less irresponsible direction. Libya's leader is as erratic and peculiar as they come. But he has also, never forget, calmly survived 34 years of leadership in particularly inclement conditions. In his time he has supported the most evil terrorists, the most rotten regimes: Libya has been both bank and training ground for wickedness. However, Mr Qaddafi switches tack when things go wrong, and what has been going wrong for him recently are America's sanctions, particularly the secondary ones that scare away other oil investors.

Some reward, at least, for better behaviour

At this point, however, sanctions may well have become a dwindling asset. If the light at the end of the American tunnel were to be shut off, Mr Qaddafi could veer away again, in a different and worse direction. At the moment he seeks to look respectable. He eschews terrorist organisations. He has moderated his meddling in African affairs in favour of pursuing pan-African ideals that are as harmlessly unattainable as his former pan-Arab ones. But is he steady on this course? Without encouragement, he could wobble off once more.

It would be silly to trust the man much farther than you can see him. Yet there is a convincing argument

for giving him a chance, lightening the American bonds, even if not fully releasing him. Mr Qaddafi still needs to be pressed hard on many matters, not least on those nasty weapons he is suspected of developing. But opening the UN prison door, while leaving the American one tight shut, is an illogical contradiction. Mr Qaddafi may not yet have won his freedom, but he should now be allowed his full probation.

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Letters

Aug 21st 2003
From The Economist print edition

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Go away, please

SIR – You are far too glib in dismissing the problems of massive levels of immigration to London ("The world comes to London", August 9th). The government expects local authorities in the eastern area, including my own, to grant permission for up to 480,000 new homes over the next 20 years. If that figure is to be met it is inconceivable that it can be achieved simply by building on brown-field sites. Significant amounts of green-field sites will be needed for these new homes.

Immigration has fuelled the property boom in London. If this continues then London will be inhabited only by the very rich or the very poor who are prepared to live in squalid conditions. This does not bode well for the capital's future.

Sean Fear
Hertsmere Borough Council
Potters Bar, Hertfordshire

SIR – You say that it is good that net immigration to London is higher than ever before. I agree that foreigners make the place more fun but at the moment there is, in effect, no constraint on numbers. Tokyo has a population of 28m. Would we be happy with London that size which, given the housing needed, would probably occupy an area from Ipswich to Southampton?

The English may be rather a dull lot but they have created a culture of political stability and honesty. That is one of the main reasons why people want to come here. Many of our immigrants have no such tradition. Japan has an official policy of zero immigration. Its cities may lack the vitality of multicultural London but I suspect that the resulting homogeneous culture is one of the reasons why crime rates are so low and why the police exist mainly to give directions. Perhaps the people who are lucky enough to live here should be asked how many other foreigners they want to accommodate?

Robert Walls
Camberley, Surrey

Relatively well-paid

SIR – It is basic economics (as well as common sense) that there is a distinction between money income and economic well-being (Economics focus, August 9th). Harvard students might prefer a higher relative income at a lower absolute level but one suspects that this choice reflects the implicit assumption of a fixed overall quantity of goods and services available in the economy. In such a situation, higher relative income would translate into a greater personal share of the bounty (ie, a higher real income). Thus, the students may not be particularly envious. Instead, they may simply prefer more stuff, just as they seem to prefer more leisure without envying others.

James Morley
Saint Louis, Missouri

SIR – The evidence in your Economics focus supports my theory regarding the relativity of wealth. I have long advocated that those who would fly first class should instead buy a long block of seats in economy, lie out comfortably and insist on an appropriate number of snacks, drinks and meals. Such a person,

surrounded by the cramped envy of so many other less well-off flyers, would feel far more like royalty than someone in first class.

Christopher Thomas
Bryan, Texas

Business education

SIR – Lawrence Summers, Harvard's president, suggests that companies might become more like American research universities ("A little learning", July 26th). Let us hope that the reverse is true. Universities should behave and be treated like companies.

Among other things, this would entail the strict separation of examinations from teaching. For a fee, anyone should be able to take Harvard's examinations. This would greatly increase access and transparency. It would also allow for attractive, cost-effective teaching by the many excellent lecturers who can only provide their services as (mostly unhappy) employees of universities. The current system of artificially restricting access to high-quality education is inefficient, extremely expensive and barbarically undemocratic.

Hans Gutbrod
Berlin

The Gray vote

SIR – I beg to differ with your assessment that California's recall is unfair ("Democracy as chaos", August 9th). Your main argument is that for Gray Davis to survive the recall, he needs a majority of the votes cast whereas his replacement requires merely a plurality.

In 2002, Mr Davis was re-elected with 47.3% of the vote in an election that had a 50.6% turnout. With only 71.3% of Californians registered to vote, this means that Mr Davis was re-elected by some 17% of the population—hardly a majority. And after witnessing Mr Davis's blatant disregard for the people of California by choosing to fight the recall and subject the state to an unscheduled election that is now projected to cost as much as $70m, I am convinced that there is no other option but to recall him.

Paul Kyllo
Covina, California

Britain's railways

SIR– *The Economist* was the first publication to reveal (in 1999) the extent of Railtrack's problems ("Mending Britain's rotten railways", July 3rd 1999). You highlighted at that time many of the issues of underinvestment and mismanagement that Network Rail is now having to repair as we attempt what is probably the biggest industrial turnaround in British business. Yet you now appear largely to ignore these huge legacy issues ("The pantomime horse", June 28th). Instead, your premise is that in the nine months since we took over Railtrack we have failed to improve an infrastructure that, in reality, suffered ten years of underinvestment in maintenance before what our regulator called the watershed of Hatfield in October 2000.

The article contains numerous specific errors from the simple—the Strategic Rail Authority, not Network Rail, is responsible for authorising or cancelling services—to the fundamental: under Railtrack, 88% of trains did not arrive on time. In the financial year 2000-01, Railtrack's last full year before administration, punctuality averaged 79.1%. In the year 2002-03, including six months when Network Rail was in charge, punctuality averaged 79.2%. This despite a huge increase in maintenance and renewals investment which is inevitably causing disruption and delays.

Many colleagues in the industry have recognised that we face an exacting double challenge: to make good the huge investment backlog while restraining costs and building a company dedicated to engineering excellence. We are determined to succeed. If we fail, then you will be right to hold us accountable. But to deliver such a negative judgment at this stage is, to put it mildly, somewhat premature.

Ian McAllister

Chairman
Network Rail
London

Death wish

SIR – I must commend you on some of your recent obituaries. I was delighted to read of the deaths of Foday Sankoh (August 9th), and Uday and Qusay Hussein (July 26th). Do you take requests?

Dave Borland
Evanston, Illinois

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America's electricity crisis

Bring me your powerless masses

Aug 21st 2003 | NEW YORK AND TORONTO
From The Economist print edition

AP

With luck, the great American blackout could propel the country to a brighter energy future

WHAT is the greatest technological advance of the past 100 years? That was the question considered recently by America's National Academy of Engineering. Some said the light bulb or the television; others the telephone, the computer or perhaps the internet. In fact, the experts picked an achievement without which those other marvels would be useless: North America's power grid.

The academy gushed that “widespread electrification gave us power for our cities, factories, farms, and homes—and forever changed our lives...from street lights to supercomputers, electric power makes our lives safer, healthier, and more convenient.” Try telling that to the millions of people in the north-eastern United States and Canada who were plunged into darkness on August 14th, when the greatest engineering achievement of the 20th century suddenly fell apart.

In what seemed like an instant, street lights, lifts and air conditioners stopped working. As minutes grew to hours, it became clear that this was no blip. In Cleveland, Ohio, the sudden cut shut down pumping stations, leaving many without water. In Manhattan, several million people walked cheek-by-jowl for hours through dark streets and across packed bridges to get home. They were the lucky ones: others had to sleep in railway stations, on office chairs or even on the pavements. The blackout caused Ontario's 12m residents even more grief, for Toronto's subway trains were out of operation for the whole weekend after the blackout.

The good news is that this massive power cut resulted in very few injuries or deaths. If it had happened in winter, or on a much hotter day in summer, it might have been worse. It also did not provoke the sort of bloody rioting and looting that was seen in New York during the blackout of 1977. On the contrary, the much-maligned residents of that city proved—as they had after the attacks of September 11th 2001—to be calm, resourceful, patient and even selfless at times. Yet now that the electricity is back, those let down by the worst power failure in North American history are demanding answers.

This will not be easy, given the complexity of the electrical system. Getting to the bottom of things will require answers to three simple questions. What exactly happened? Why did it happen? And how can it be prevented in future? And answering these questions points to a troubling but inescapable conclusion: unlike other countries that are modernising their power industries successfully, America is muddling along with an approach to electricity reform that is deeply flawed. If future blackouts are to be avoided, it must fix these problems quickly and decisively.

Suddenly this summer

It might sound straightforward to work out what it was that shut down such a large swathe of the North American grid. Indeed, early on, plenty of explanations were touted: lightning strikes, trees bringing down power lines, a fire shutting down a power plant, control-room operators snoozing through alarm bells, even computer-virus attacks. George Bush and other American officials rushed to make clear that this was not a terrorist incident—though some fingers did point north.

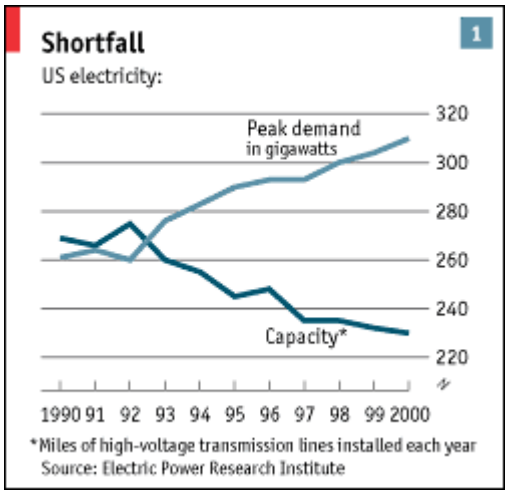
That is because few things move more seamlessly between America and Canada than electricity. Ontario is an integral part of the North American power grid (which is subdivided into two main, quasi-independent grids serving the eastern and western halves of the continent, plus a third grid for Texas). When the blackout occurred, American generating stations were supplying about 7% of the electricity in Ontario. In the event, this amicable arrangement gave way to bitter rancour: Canadian officials talked of problems in America, while the Americans blamed Canada.

Actually, nobody had the facts necessary to make any confident claims at all. The leading theory now is that the blackout began with the sudden failure of several transmission lines in Ohio controlled by First Energy. For reasons that are not yet clear, the company was unable to contain the damage or, it is claimed, to warn neighbouring grid operators in time for them to take precautionary action. As a result, a little local difficulty cascaded into a regional problem and ultimately a national crisis, as one part of the grid after another automatically shut down to prevent the permanent damage that might result from a huge and unexpected surge in power.

It could take investigators weeks to finish their technical report on this blackout, but it does not need so long to answer the second question, why it happened. One possible explanation is that this was a freak occurrence; if that were true, there would be no reason to blame anybody and no reason to rethink basic assumptions about grid safety and reliability. If this were merely an electrical version of a storm of the century, it would be foolish to “goldplate” assets to prevent a repeat.

Sadly, the signs are that America's grid was ripe for a blackout. Peter Smits, head of the power-transmission division at ABB, a European engineering giant, insists that “this was not a once-in-100-years event.” He points out that various parts of America's grid have seen smaller blackouts in recent years—something “that would not happen in Germany”. Studies by industry associations, technical experts and America's Energy Department have all highlighted the fragile state of America's grid. Granger Morgan of Carnegie Mellon University goes further, concluding that “this blackout took 50m people by surprise, but for most folks that look at the grid the only surprise is that it didn't happen before.”

The reason that the experts are not surprised is that they have seen the demands placed on America's grid grow rapidly, but have yet to see improvements in infrastructure to meet them (see chart 1). Was a lack of money to blame? After the blackout, several pundits claimed that it would cost $50 billion or more to fix America's grid. Yet although that seems quite a lot, it is not when seen over a 30-year time horizon in an industry that takes $300 billion a year in retail revenues in the United States alone. Transmission costs make up some 7% of the cost of delivered power, while generation makes up perhaps three-quarters. Shortage of money is not the real issue.



Another plausible explanation might be that the necessary technologies are not available. Yet a glance at the more reliable grid in Europe suggests this is not true. So does the fact that much of America's grid uses technology designed in the 1950s and 1960s. In fact, explains ABB's Mr Smits, there are plenty of modern technologies that would greatly improve the reliability of America's grid. He points to the example of high voltage direct-current cables, an innovative means of delivering electricity over long distances. China is using this technology to deliver the power generated at its Three Gorges dam to Shanghai; Brazil uses it to get Amazon power to São Paulo.

Yet consider the travails that ABB has met in America with this technology. The firm completed a project laying high-voltage cable from Connecticut to energy-starved Long Island, New York, a year ago. But objections from greens and bureaucratic delays stopped it from becoming operational. When the lights went out on August 14th, Spencer Abraham, Mr Bush's energy secretary, ordered that the cable be activated immediately. “Without it,” says Mr Smits, “I can say with confidence that Long Island would not have received power on August 15th.” That sorry tale suggests that the real explanation for America's

power woes lies in mucky politics.

Demonising deregulation

The way the country has deregulated power has left investors and utilities confused, with little incentive to invest in upgrading transmission. Paul Joskow, an economist at the Massachusetts Institute of Technology, says that “the wrangling between pro- and anti-competition forces, jurisdictional disputes between federal and state policymakers, and plenty of ignorance have led our electric-power system to become stuck somewhere between the old system of regulated monopoly and a new system that relies more on competitive power markets. If we remain stuck here, there will be much more trouble with electricity down the road.”

That grim analysis suggests that the third question—how to prevent future blackouts?—is pressing. And to judge by the sound and fury coming from Washington, Ottawa and New York, politicians and utility bosses are taking it seriously. The North American Electricity Reliability Council, the group responsible for grid reliability, has a big investigation under way. Canada and the United States are co-operating on a joint one. And congressional staffers are tinkering with proposals in the big energy bill that both the House and Senate will take up after the August recess.

In the end, fixing the grid's problems will require Congress to fix America's energy laws in several ways. The most important is to enhance the role of the Federal Energy Regulatory Commission (FERC). America's federal system gives a lot of authority over the transmission and distribution system to states. Mr Joskow insists that the federal government “needs to be given primary regulatory and policy jurisdiction over the high-voltage transmission facilities owned by private, public and cooperative utilities”, just as it has jurisdiction over interstate natural-gas pipelines. He also wants to see the crazy patchwork of local transmission operators consolidated into a few regional organisations.

Although the FERC deserves some blame for snoozing as power marketers such as Enron manipulated the wholesale market for power, it has come roaring back to life under the leadership of Pat Wood. Mr Wood was appointed to the FERC by Mr Bush, whom he got to know when he was the top energy regulator in Texas. He has proposed changes to bolster the FERC and advance deregulation. He has put forward a promising if imperfect plan to clarify aspects of deregulation, and another to force the many grid companies to unite into a few, manageable regional giants. He is right to call for more federal control over power. But the administration is, for the moment, afraid to anger powerful and generous regional utility monopolies.

Asked about objections from states'- rights advocates, he defends his plans thus: “I'm from Texas, a great advocate of states' rights! Even so, I truly believe that more federal control makes sense. After all, if there's any commodity that deserves to be treated as interstate commerce—and therefore under federal jurisdiction—it has to be one that moves across state and even national boundaries at the speed of light.”

That notion also points to the final area of hope for fixing the grid: technology. Once the disincentive to invest is removed, the industry seems sure to see a rash of innovation of the sort seen in telecoms after the break-up of AT&T. In particular, advances seem likely in two areas: upgrading the grid to expand capacity, and bypassing it with micropower plants that generate power close to consumers.

AP

Regulating in the dark

Some worry that expanding the grid's capacity will mean laying more transmission lines. Actually, it need

not. Thanks to advances in materials technologies and superconducting cables, more power can be shipped down the same rights of way if decades-old wire is simply replaced. Just as important is sophisticated new communications and monitoring hardware and software that will allow grid controllers to assess flows of power more easily.

Roger Anderson of Columbia University, whose warnings of this summer's impending power crisis went unheeded, hopes to build, with colleagues from Houston's Rice University, the “smart electric grid of the future” in Texas. He is not alone. T.J. Glauthier of E2I, a group affiliated with the Electric Power Research Institute (the research arm of the American power industry), wonders if the blackout could have been averted had First Energy had at its disposal powerful tools to analyse the grid's problems in real time. His group is working with Lucent and GE to develop the “open architecture for a self-healing, intelligent grid” equipped with microprocessors and sophisticated software for communications and control.

E2I and EPRI are also working with United Technologies to develop “plug and play” software that could make it as easy to connect a micropower plant to the grid as it is to connect a printer to a computer. That would do much to boost the fortunes of small, super-clean generators such as fuel cells and microturbines. Researchers at Carnegie Mellon have run elaborate simulations and tests, and have concluded that a system with more distributed generation would be more robust than today's grid.

If that sounds far-fetched, consider one last question: where was the safest place in New York during the worst blackout in American history? It may have been the middle of Central Park. That is because the police station in the park uses fuel cells. With the rest of the city in darkness, super-clean “micropower” plants carried on unaffected: New York's finest had all the power and light they needed. If only 1,000 such flowers were allowed to bloom, the world might shed a grid conceived long ago in favour of an energy internet worthy of the 21st century.

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Electricity in other countries

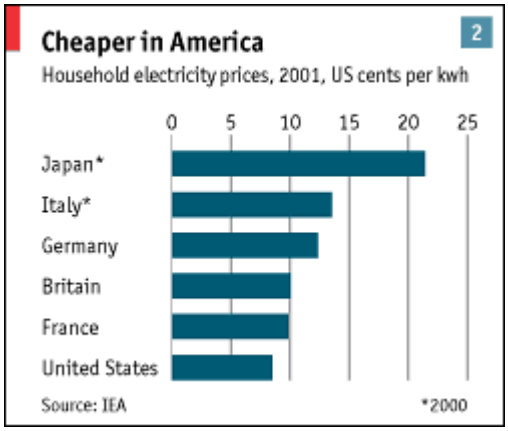
Could it happen to us?

Aug 21st 2003 | BERLIN, LONDON AND TOKYO
From The Economist print edition

The reaction around the world

POWER cuts are common in poor countries. But in most rich countries, the reaction to America's big blackout was a mixture of *Schadenfreude*, taking pleasure in the misfortune of others, and a smug assumption that it couldn't happen here. Yet although failures as widespread as America's are unlikely, such smugness may be wrong. And if it requires massive spare capacity to avoid power cuts, consumers have to foot the bill. Electricity is cheaper in America than in other rich countries (see chart 2).

In **Germany**, the grid is more tightly knit than America's, and also integrated with those of other European countries: if one transmission line fails, others take over. German power companies also have much capacity in reserve that can be brought online in seconds. But the market liberalisation that is now belatedly under way means this overcapacity is unlikely to last, as it is essentially a legacy of the time when electricity was controlled by regional monopolies.



Meanwhile in **France**, where nuclear-power plants remain at the heart of Electricité de France's empire, the recent heatwave has brought dire warnings of possible power cuts because it has made it much harder to use water to cool the reactors. The French, usually exporters of electricity, have been reduced to importing the stuff. And liberalisation may expose not only the poor economics of nuclear, but EdF's other high costs.

Britain is the poster-child for liberalisers. The system, based on a spot market for wholesale power, is regulated by Ofgem; the grid is run by National Grid, which has invested more than its American counterparts in transmission. National Grid tells generators when it thinks the margin of spare capacity is too tight: the country has a margin of some 20% over normal demand. Yet the industry is troubled: as wholesale prices have fallen by 40% since 1999, several companies, including British Energy, the main nuclear generator, no longer make money. The biggest coal-fired plant, Drax, has gone into administration. One idea floated by some companies is to offer big consumers lower prices in exchange for greater risk of power cuts, while guaranteeing domestic consumers uninterrupted supply.

In **Japan**, power cuts have been rare in the past: even when a military jet brought down a high-voltage line in 1999, Tokyo Electric Power (Tepco), restored power to most users within 30 minutes. But this year prophecies of more extensive power cuts have been common, because Tepco, the world's biggest private electricity supplier, has closed 17 nuclear-power plants on safety concerns. Luckily for Tepco, the summer, unlike Europe's, has been one of the coldest on record, and five nuclear plants have been allowed to restart. Yet the danger of big blackouts in and around Tokyo remains.

The right conclusion is thus not that power cuts cannot happen here. What is crucial is that energy regulators put in place incentives to invest in generating and transmission capacity, which have been so lacking in America.

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Homelessness

Gimme a roof over my head

Aug 21st 2003 | NEW YORK
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AP

A huge problem with, at last, a solution?

ON BOWERY STREET in downtown Manhattan, where flophouses and cheap bars were once as numerous as flea-bitten pigeons, there now sits the Palace Employment Shelter. The clean, sunlit facility provides 72 homeless men not just with a bed, but with job training, therapy for addictions—and discipline. A straggler caught taking a mid-day nap is told firmly he should be out looking for work.

Walking across the parquet floors, the shelter's programme director, John Johnson, boasts of its success rate: 54 residents have been placed in jobs and permanent housing since July 1st 2002. This may not seem a lot, but dealing with chronic homelessness is the toughest job for any shelter.

Figures are hard to come by, but between 700,000 and 800,000 people are homeless in America on any given night, and between 2.5m and 3.5m people will experience homelessness this year. By most measures, the figure is rising, made worse by a bleak economy.

Around half of the homeless are families, usually with only one parent, who can't find cheap enough housing. They usually stay in the shelter system as long as it takes to find a place to live (which they often pay for with the help of a federal subsidy). The other half of the homeless is made up of single adults. Most of them pass through the shelter system relatively quickly. But a hard core—around 150,000 or so—never leave it.

For the chronic homeless, the problem is not a lack of cheap housing but usually some form of mental disability. These are the most visible and the most helpless of the homeless—and also the most costly, as they ricochet from one emergency service to another. They consume more than half the $2.2 billion the federal government spends on homeless programmes (and almost certainly most of the far larger sum spent by cities and local authorities).

This chronic problem dates back to the 1970s, when libertarians persuaded states to stop locking up the mentally ill unless they had actually broken the law. This saved the states money, because the federal government took on the financial burden of their disturbed charges through disability benefits. But it did not take long for these people to lose contact with such services and fetch up on the street.

Ending chronic homelessness in ten years is the lofty task set out by the Interagency Council on Homelessness. A year ago, President Bush reactivated the council (which had been dormant for six

years) to co-ordinate the services of the 18 federal agencies and 50 federal programmes that assist the homeless, together with some 40,000 local ones.

The idea is to ensure that federal money reaches the neediest, and then to start moving the chronic homeless from shelters to “supportive housing”—first to places like the Palace, and after that to special cheap housing developments (there is talk of providing 150,000 units) where medical care is available. Rather than shuttling expensively from shelter to prison to hospital, the homeless will get a place they can more or less call home. And the government will save money.

Given the enormity of this project, Mr Bush's council at first sight looks like small beer. It has spent $35m in its first year; New York City's Department of Homeless Services alone spends $600m. But Mr Bush is putting more money into the council, another $75m in the current fiscal year. And as Philip Mangano, the executive director of the council, points out, the main task is not spending money but co-ordination—bringing together programmes such as Medicaid and food stamps and, most important, getting the cities to join in.

For once, there seems to be some unanimity of purpose between the centre and the cities. The US Conference of Mayors has endorsed the ten-year plan, reflecting a change of emphasis at the local level, too. Cities such as Philadelphia, New York and Chicago have started to try to move their chronic homeless from shelters to supportive housing of one sort or another.

In Maricopa County, Arizona, which includes Phoenix, the state puts people diagnosed with a serious mental illness in special subsidised housing under the supervision of a managed care company. Another trendsetter is a New York charity called Pathways to Housing, which offers permanent shelter and health services to the chronic homeless. It began with a $500,000 grant from the city and the state in 1992; now it gets more than $7.2m from government agencies. It also claims some success: by 2000, 88% of the programme's tenants were still housed after five years.

Can these elaborate systems really save money? Dennis Culhane, of the University of Pennsylvania, reckons the cost of keeping 4,679 homeless people in supportive housing in New York City between 1989 and 1997 was about $13,500 per person per year (though some put the figure closer to $20,000). He estimated that the emergency costs of letting these people stay on the street—tallying up days in psychiatric and acute-care hospitals, shelters and prison—was around $40,500 a year, mostly from health-care expenses. And that did not include the added cost of soup kitchens, drop-in centres and crime.

The other 90%

Some of the loudest protests against the new policy have come from people who deal with the non-chronic homeless. Why, they ask, is a destitute heroin addict more worthy of state help than, say, a low-income dishwasher?

In theory, removing the chronic homeless from shelters should free more beds. But Donald Whitehead, the executive director of the National Coalition for the Homeless, thinks the rest of the homeless need an initiative too. He recommends the Bringing America Home Act, an omnibus bill that includes everything from building more affordable housing units to raising the minimum wage.

This is unlikely to find much favour in Congress. Even leftish economists would query the idea that the government should start building lots of subsidised housing, especially during a housing bubble. Increasing the minimum wage can increase unemployment.

All the same, the lack of cheap housing certainly has an effect on the number of homeless. In 1970, there were 6.5m low-cost rental units and roughly 6.2m low-income renters; now there are 7.9m low-cost rental units and some 9.9m low-income renters, according to a new report from the Joint Centre for Housing Studies of Harvard University. The report also says that three in ten American households—some 14.3m—spend more than half their income on housing.

The federal government distributes vouchers to 2m poor households to help them pay their rent. But the number of vouchers is fixed, and most of those who have them are loth to give them up (even if their income has increased). Some conservative reformers, such as Howard Husock at the Manhattan Institute, think there should be a time limit on vouchers, just as there is now one for welfare.

Behind all these arguments sits the fact that homelessness is not really one problem, but two: one brought on usually by disability, the other largely by economic misfortune. Chronic homelessness may be the right one to tackle first.

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Miami's Cubans

The end of the road

Aug 21st 2003 | MIAMI
From The Economist print edition

Some very loyal Republicans get tired of being taken for granted

Get article background

IN THE 2000 election, Miami's Cuban exiles turned out in style for George Bush. More than 80% of them voted for him, helping in the end to deliver recalcitrant Florida. Now, however, the honeymoon is over. The exiles are increasingly asking: What is George Bush doing for us?

Frustration boiled over late last month after 12 would-be asylum-seekers, who had stolen a Cuban government boat to escape the island, were repatriated by the United States Coast Guard. The American authorities said the rafters were not eligible for asylum because they had seized the Cuban vessel by force, and because they had resisted violently when the Coast Guard picked them up.

No matter, exiles cried. Consider the fate that awaited them back home. In April, the Cuban government executed three men who hijacked another boat in an effort to flee the island. The month before, 78 dissidents were rounded up and given heavy jail sentences. The State Department may be the harshest critic of Cuba's justice system and the appalling state of its prisons, but the immigration service sends desperate Cubans straight back to them.

The exiles have a point. For all America's bluster about Cuba's communist dinosaur, Fidel Castro, Cuba policy has never been a high priority in Washington politics. The 43-year trade embargo remains in place, and presidents, especially Republican ones, do as much as they think they must to grab campaign contributions and votes at election time. To do more seems unnecessary. The older exiles are so solidly Republican that their votes hardly need striving for; the younger ones, with more flexible opinions, no longer demand hardline policies on Cuba. Nonetheless, when the exiles feel slighted, they loudly object; and they are objecting now.

Jeb Bush, the governor of Florida, ever-sensitive to his loyal followers in Miami, found himself obliged to join the chorus of disapproval about the rafters. “It's just not right,” he managed to say. His brother in the White House may have hoped Jeb's words would be enough to calm things down; but they were not. In a letter to the Miami newspapers on August 6th, almost 100 leading members of the Cuban-American National Foundation (CANF), the main exile group, accused the president of failing to honour his repeated promises of a new, tougher Cuba policy. With the letter came a cartoon suggesting that Cuban-American voters might be less keen on Mr Bush in 2004 if matters did not improve.

Five days later came another letter, signed by 13 Republican members of Florida's state legislature. It warned Mr Bush that unless “substantial progress...occurs rapidly, we fear the historic and intense support from Cuban-American voters for Republican federal candidates, including yourself, will be jeopardised.” On August 15th came a third missive, in which 34 city and county councillors in Miami-Dade County, Republicans all, urged Mr Bush to change his Cuba policies. “This is what you call a rebellion,” said Joe Garcia of the CANF.

Exile leaders have four demands: increased funding to improve the weak signal of Radio and TV-Marti, the government-run station that broadcasts to Cuba; greater support for the islands' dissidents; an overhaul of American immigration policy, meaning an easing of the entry rules for Cubans; and the prosecution of those responsible for the deaths of four exiles shot down in 1996 by the Cuban air force.

So far, the White House has bungled its efforts to smooth things over. Otto Reich, the White House special adviser on Cuba—himself a Cuban-American—caused deep offence in Miami by suggesting that there were enough Cubans there already. The newly appointed State Department chief for Latin America,

Roger Noriega, also a long-time political ally of the exiles, says any easing of immigration policy for Cubans could trigger a mass exodus from the island, as in 1994, and possibly more tragedies at sea.

Meanwhile, the latest tragedy remains in the news. Cuba has released six of the 12 repatriated rafters; the others, after a brief trial, have received sentences of seven-to-ten years. Their fate will haunt Mr Bush when he comes to Miami to campaign.

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Tennessee's governor

CEO in charge

Aug 21st 2003 | NASHVILLE
From The Economist print edition

Phil Bredesen, a cost-cutting southern surprise

NONE of the stereotypes of a glad-handing southern politician applies to Phil Bredesen, Tennessee's new governor. He is not boisterously friendly; his accent is from New York state; he graduated not from the beloved University of Tennessee, but from snooty Harvard. His speeches are short on down-home anecdotes: a former health-care CEO, he could just as easily be lecturing on total quality management. And there are three more surprises. Mr Bredesen is popular; he is a Democrat in a largely Republican state; and, when it comes to budgets, he is a cost-cutter rather than a tax-raiser.

AP

Democrat by name, Republican by nature

Admittedly, Mr Bredesen had few alternatives when he took office in January. Tennesseeans' traditional dislike of taxes intensified last summer, as Don Sundquist, Mr Bredesen's Republican predecessor, and the state legislature wrangled over a nearly $1 billion budget deficit. Mr Sundquist's suggestion of a state income tax sparked fury among conservative voters. A compromise measure covered the gap by raising state sales taxes, the source of 70% of state revenue; but as Bill Fox, head of the University of Tennessee's Centre for Business and Economic Research, points out, sales taxes tend to grow more slowly than the economy as a whole, especially as more money goes to purchasing untaxed services rather than goods.

With the unpopular Mr Sundquist term-limited, the governor's chair was open to anyone brave enough to take on Tennessee's fiscal mess. And Mr Bredesen was well-positioned. He had built a reputation of fiscal conservatism and economic development during eight years as mayor of Nashville, where he cut deals to bring a Dell computer factory and professional football and hockey teams to the city. And he promised no income tax.

He took a decidedly managerial approach to cutting state spending, calling for 9% cuts in every department and asking each commissioner to present a list of proposed cuts in a public forum. His first budget, which has just gone into effect, is only 4.1% larger than the 2002-03 budget, which was, by contrast, nearly 7% larger than the year before's. But Tennessee is starting the new fiscal year with a tiny surplus.

Now the governor has to tackle problems outside the state budget. One challenge is finding a new president for the University of Tennessee, whose president resigned under a financial cloud on August 8th, the second to do so in three years. Mr Bredesen has vowed to shake up the university's powerful board of trustees, half of whose members were appointed by Mr Sundquist. Another challenge is implementing Tennessee's new lottery, which will offer university scholarships to local students with good

grades, if anyone knows how to make it work. A third is reforming TennCare, the state's alternative to Medicaid, which eats up more than a fifth of the state budget.

But the biggest challenge of all is stimulating Tennessee's economy, heavily dependent on manufacturing. The Economic Forecasting Centre at Georgia State University predicts it will grow by a measly 1.9% in 2003 and 2.4% in 2004, both below the predicted average for the south-east. Mr Bredesen is unfazed. Since taking office he has been able to announce deals for 4,000 potential new jobs, including an expansion of Nissan's plants in mid-Tennessee. George Bush might take note.

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Immigration policy

Beware students

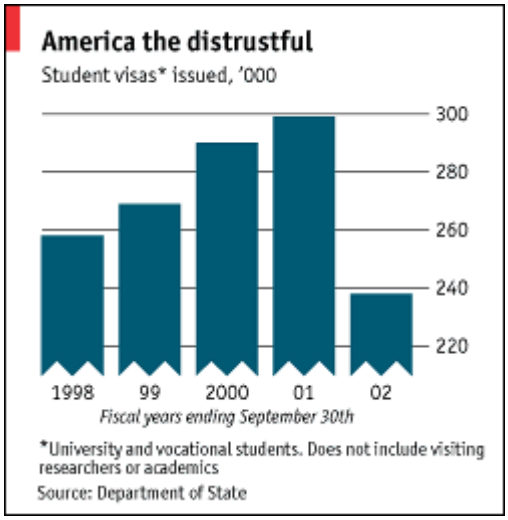
Aug 21st 2003 | CHICAGO
From The Economist print edition

The latest victims of America's paranoia are those who want to learn

Get article background

AS CLASSES began at many universities, colleges and schools across America this week, more than a few seats remained empty. Foreign students are facing unprecedented delays and, in some cases, rejections from the American government, as visa applications get closer scrutiny than ever.

Nearly 583,000 foreigners were enrolled in American universities and colleges last year. The Institute of International Education (IIE) estimates they contributed about $12 billion to the economy. Many, but not all, require visas to study in America. But from August 1st, virtually all foreigners applying for first-time student visas—except the old, and young children going back to boarding school—have been required to have personal interviews with an American consular officer abroad. In some countries, waits for interviews at American embassies and consulates have stretched to five weeks or more.



From August 1st, too, all universities, colleges and schools that admit foreign students have been required to enter data on them in a national computer database called SEVIS. This system, managed by the Department of Homeland Security (DHS), is meant to track students while they are in America. More than 1m students are now in the database, representing about 7,000 schools across the country. But the work is only beginning. Updates on new arrivals, as well as changes of address, changes of courses taken, and other details, must be reported via SEVIS within 30 days of the start of every term.

Colleges of all sizes have been scrambling to meet the deadline. Both Harvard and the Illinois Institute of Technology, which take many foreign students, hired extra staff and diverted others to put data into the system. Others could not afford the extra hands. Northern Virginia Community College, a two-year college that enrolled over 9,500 international students last year (about half of them permanent residents), closed its international office to inquiries for two hours a day over ten weeks this summer to put data into SEVIS.

“This is a huge unfunded mandate” from the government, says Allan Goodman, head of the IIE. He reckons many schools have spent $50,000-500,000 already to comply with it. His own institute, which hosts academic visitors sponsored by the State Department, has spent $200,000 so far. More than 600 other schools—mostly small private, trade or religious ones—are awaiting government certification to use SEVIS, which takes 60-90 days to get. While they wait, foreign students who plan to attend those schools have been delayed at American ports of entry because they are not in the system.

Meanwhile, American consular officials abroad are getting ever pickier. Visa-rejection rates for foreigners who wish to study in America have jumped since the attacks of September 2001, even though applications have fallen. Rejections have also risen for foreign academics invited to work on American campuses. Officials fear not only that these teachers and students may threaten security, but that they may never go home.

Arab and Muslim students have been particularly hard-hit. Not surprisingly, Iran, Iraq, Syria, Sudan and

Libya saw the number of student visas issued to them fall by 60% or more in the fiscal year that followed September 2001. In the current fiscal year, the fall has continued. But Saudi Arabia and Pakistan, officially friends of America, also saw their student visas drop by 65% and 60% in fiscal 2002, with another apparent drop this year.

Foreign students are not the only focus of the government's scrutiny. Universities, colleges and schools are also under the microscope. Since the 1980s, more than 77,000 educational institutions in America—teaching subjects from cooking to car maintenance—have accepted at least one foreign student. That means about 70,000 are not yet part of SEVIS. The DHS is conducting site visits, and has found that more than a few of these “schools” are actually post-office boxes.

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The great outdoors

Backpacker power

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From The Economist print edition

In which the governor of Utah finds himself in a tricky spot

WITH the Wasatch and Oquirrhs mountains soaring behind them, more than 17,000 outdoor retailers gathered last week for their annual trade show in Salt Lake City. Many were members of the Outdoor Industry Association (OIA), which represents more than 4,000 companies that clothe and equip the more than 149m Americans who like to hike, bike or roam the great outdoors. And this show, which brings around $24m a year into Utah's capital, has become the biggest bargaining tool in the state's economy.

In April, the OIA threatened to move the trade show in protest at a closed-door settlement between Utah's governor, Mike Leavitt, and the Department of the Interior. The deal overturned temporary wilderness protection for 2.6m acres of state land. It also threw out the handbook used by the Bureau of Land Management (BLM), to determine which areas deserve protection as wilderness, removing more than 220m acres across the west and Alaska from formal consideration.

Environmentalists protested, but it was only when the OIA weighed in that Mr Leavitt began to talk. This was the moment when the outdoor-recreation industry realised it had clout. Seven of America's ten fastest-growing cities lie right beside national forests, national parks or wild areas. City-dwellers need such places to relax in, and country-dwellers appreciate their money. Besides, according to the governor's office, over 15,000 Utahns work in the outdoor-recreation industry.

So now Mr Leavitt—newly proposed as head of the Environmental Protection Agency—is talking of the OIA as a potential “partner”. And the OIA, “cautiously encouraged” by this, has agreed to extend its trade-show contract to the winter of 2005. Yet the two sides remain far apart on their goals for protecting Utah's wilderness.

At present, Utah has a mere 801,000 acres of designated wilderness out of a national total of 105m acres, most of it in the west and Alaska. In 1976, when Congress asked the BLM to look for land that might qualify for wilderness protection, it found 3.2m eligible acres in Utah. Then in 1996 the then secretary of the interior, Bruce Babbitt, called for a further survey which yielded another 2.6m acres, most of them in the red-rock region in the south of the state. At that point, Mr Leavitt sued the government, claiming that the original 1976 directive had expired in 1993 and that Mr Babbitt had overstepped his powers. It is this suit that was settled in April.

Everyone agrees that the 3.2m acres evaluated before 1993 should be recognised as wilderness by Congress. And Mr Leavitt admits that “every piece” of the extra 2.6m acres with value as wilderness or for recreation needs federal protection—though most, he believes, fall short of wilderness rating. No quibbling, says the OIA; all the lands must get the same protection.

So the talks go on, with the OIA hoping for progress if and when Mr Leavitt moves to Washington. Meanwhile, it is not neglecting another development at the Interior Department: a directive from the BLM to eliminate impediments to oil and gas leasing on BLM-managed lands. “Interior”, says Frank Hugelmeyer, OIA's head, “can expect a little love note from us soon.”

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Crime

In the can

Aug 21st 2003 | WASHINGTON, DC
From The Economist print edition

This week's most terrifying statistic

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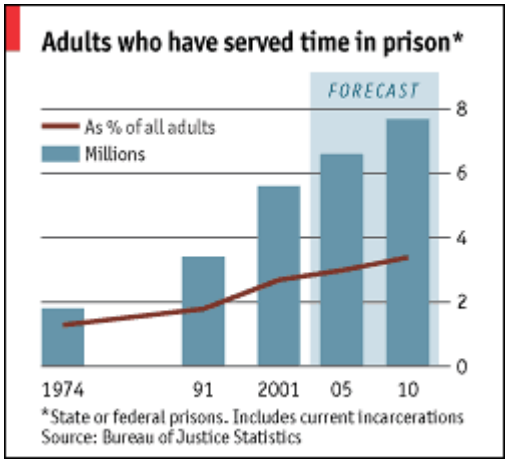

CONSERVATIVE politicians have tried to change America in many ways. None may have a bigger effect than chucking ever more people in the can. By 2001, says a new Justice Department study, one in 20 American men had had “prison experience”. The figure for black men is close to one in six. Aggressive sentencing laws, particularly for drug offences, mean that the proportion of cons and ex-cons has doubled since 1974, from 1.3% of the adult population to 2.7%.

The most amazing figures concern the future. Thanks to the world's toughest incarceration policy, 11.3% of boys born in 2001 will go to jail in their lifetimes. For black men, it will be one in three. Unless something changes in the rotten rehabilitation record (two-thirds of prisoners are rearrested within three years), conservative politicians will have created a criminal class of unimaginable proportions.

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Lexington

Of toffs and Teamsters

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From The Economist print edition

The Democrats go looking for Joe Sixpack

CLASS isn't supposed to exist in America, but the Democratic contenders for the presidency are doing a fine job of pretending otherwise. All of them are vying hard for the title of Humblest Upbringing. Forget about Senator John Edwards, the millionaire trial lawyer. In his first set of ads, he waxes eloquent about his sharecropper grandmother. Forget about Senator Bob Graham, the Floridian aristocrat; he would rather talk about the day he spent changing soiled bed sheets in an old folks' home. Joe Lieberman bangs on about his immigrant parents, Dick Gephardt about his milk-truck driving father. Congressman Dennis Kucinich claims he had to grow up in 21 different houses.

Why is a working-class hero suddenly something to be? The Democrats seem to be betting on two hunches. The first is that it is possible to nail any Bush as a toff. In 1992, George Bush senior, who had been chauffeured to school during the Depression, looked out of touch with ordinary people when set beside Bill Clinton, the poor boy from Arkansas. The current George Bush has often looked vulnerable when close to rich cronies, and he will have to defend a presidency which has so far lost 3m jobs.

The second bet is that the key to electoral success sits in the oil-stained paw of Joe Sixpack. Joe is hard to be precise about, but you know him when you see him. He is a white, working-class man who never finished college (if he even started), and is enamoured of cheap canned beer, pretzels and televised sports. He may no longer carry a union card and has been pushed out of manufacturing into services, but his natural habitats are the (electorally pivotal) industrial states of the mid-west and the north-east. Think of the husband in “Roseanne”, Al Bundy in “Married with Children” or just about any aggrieved male in a Bruce Springsteen song, and you get the picture.

Ever since Ronald Reagan succeeded in wooing Joe and his mates away from the Democrats in the 1980s, Mr Sixpack has been up for grabs. In the last election, he split his vote between Al Gore and George Bush junior. Joe also matters in the Democratic primaries. With black voters likely to jump for Al Sharpton, Howard Dean picking up liberal intellectuals and John Kerry probably getting the nod from the Democratic establishment, union members are the one voting block still up for grabs.

This helps explain why, last week, six of the nine Democratic hopefuls descended on the Teamsters Local 238 hall in Cedar Rapids, Iowa, downwind of the acrid stench of roasted maize from a local “corn sweeteners” plant—and proceeded to humble themselves. At times, it was almost too painful to watch. “Lemme tell ya,” thundered the Swiss-boarding-school-educated Mr Kerry to his “brothers and sisters”.

Mr Dean, the son of a Wall Streeter, bounded on stage to the sound of Mr Springsteen's “Born in the USA”. A quick scan of the car park revealed that one of only two Dean stickers was attached to a Minnesota minivan with a ski-rack, hardly the sport of choice for Teamsters.

Mr Gephardt seemed to win the humbleness competition. “It's time to have a president who comes from a labour family,” he roared (his father was a Teamsters member). Technically, this was trumped by Mr Kucinich, who claimed no fewer than three union cards—his father's, his own (stagehands' union), and an honorary one—but even the unions admit he is too long a shot.

But you're still peasants as far as I can see

The bigger question is whether the class card is working to anybody's advantage. Iowa was supposed to be Gephardt territory. But Mr Dean, who as a young Yalie was ski-bumming in Aspen while Mr Gephardt was struggling to become an alderman in St Louis, is now the front-runner in the state, and Mr Kerry is steadily gaining. This may be because Mr Gephardt has failed to nail down his union base as well as he did in 1988, when he won the state; but he plainly needs to do something quickly.

When it comes to the broader challenge of leading Joe Sixpack away from the Republicans, the faltering economy plainly gives the Democrats a chance. But it will be much harder to depict the second President Bush as a toff. This Bush drives a pick-up truck, and he won't get caught asking waitresses for “a splash” of coffee, like his father did, let alone asking for Swiss cheese with his cheesesteak as Mr Kerry foolishly did at one Sixpackish event.

Indeed, the Democrats could have a class problem of their own, particularly if they choose Mr Kerry or Mr Dean. The last patrician Democrat to appeal to the rust belt was Robert Kennedy. As Bill Schneider, CNN's polling guru, points out, the Democrats still tend to be led by upper-middle-class, college-educated liberals—just the sort who get up Joe Sixpack's nose. The Republicans insist anyway that class is a question of values, not money. They have repeatedly found non-economic issues to win over white rust-belt males: abortion (Joe is often a Catholic), crime (he tends to believe in capital punishment), gay marriage (nothing against them, but no thank you) and guns (remember “The Deerhunter”).

Come next summer, Mr Bush will subject his challenger to another cultural populist bombardment, and he will also hurl in national security. One reason why Joe defected to Mr Reagan was the tough line the Gipper took with the Evil Empire. Now there is terrorism to do battle with—and none of the Democrats looks as tough as Mr Bush.

The closest parallel could be with 1988. Back then, the Democrats heaped class-based insults on the elder Mr Bush (“born with a silver foot in his mouth”, they claimed) and celebrated the humbler beginnings of Michael Dukakis. But the older Bush convinced Joe that his Democratic rival was a poncey Harvard Yard liberal who would not protect American power abroad—and he duly won most white male votes at every income level. Messrs Kerry and Dean have been warned.

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Colombia and the United States

Plan Colombia—the sequel

Aug 21st 2003 | BOGOTÁ
From The Economist print edition

AP

American aid has produced some results in Colombia. That is one reason why it is turning into a long-term commitment

Get article background

IT IS not quite Afghanistan, but outside that country and the Middle East, it is the American's most expensive foreign entanglement. Since 2000, under an aid programme known as “Plan Colombia”, the United States has pumped in some $2.4 billion in military and economic aid, aimed at fighting drugs and the rebel armies that feed upon them. Under Álvaro Uribe, a stern Liberal who took office as Colombia's president a year ago, this aid has started to show results.

That may be one reason why Donald Rumsfeld, the defence secretary, this week became the latest in a string of senior American officials who have recently visited Bogotá. Mr Rumsfeld declared Colombia to be “half-way along and making good progress” in its efforts to impose security. America sees Mr Uribe as a close ally. George Bush has asked Congress for $688m more for Colombia in fiscal year 2003-04. This week, he announced the resumption of a policy under which American spy planes will help Colombia spot and shoot down drug planes. (The policy was suspended in 2001 after an American missionary and her baby were killed when their plane was downed in Peru.)

Most Colombians welcome American aid, though many would like it to focus less on drugs. But it remains controversial in the United States and, officials have recently stressed, it is not open-ended. How soon could the superpower pull back from Colombia without undoing much of what has been achieved?

Colombia is the source of some 70% of the world's cocaine, and much heroin. Plan Colombia, drawn up by the governments of Andrés Pastrana, Mr Uribe's predecessor, and Bill Clinton, was aimed at wiping out that drug production. The hope was that this would squeeze the incomes of left-wing guerrillas and right-wing paramilitary vigilantes, encouraging them to make peace. After peace talks with the FARC, the largest guerrilla group, collapsed last year, Mr Bush allowed the aid to be used directly against the rebels, too.

The bulk of the American money has gone on training and equipping with 72 helicopters (14 Blackhawks and 58 Hueys) a new anti-drugs brigade of the Colombian army. Just keeping this going costs $150m a year; another $80m goes on deploying 21 crop-dusting aircraft to dump weedkiller on drug crops. The helicopters and the crop-sprayers are flown by American pilots hired by the State Department. In

parallel, Colombia has made its own efforts to strengthen its army and police.

Mr Uribe is now claiming some successes: according to a UN survey, coca cultivation was cut by 30% in 2002, to 102,000 hectares (252,000 acres), reversing an upward trend between 1995 and 2001. Cultivation of opium poppies is also down. American officials say that they hope that coca will be reduced to around 30,000 hectares and poppies to 5,000 hectares by 2006. Mr Uribe also points to a fall in kidnapping, murders and guerrilla sabotage.

These achievements remain fragile. The FARC is on the defensive, but none of its leaders has been captured or killed. Mr Uribe last week called on his generals to work harder, saying that those who did not get results should resign. Many security analysts believe that it will take several years of effort for Colombia's government to impose its authority on rebel-held areas. And drug production is likely to shift to neighbouring countries.

Plan Colombia is due to end in 2005, after which American officials expect aid to decline. One thing standing in the way of further aid is an impasse over the International Criminal Court, which Colombia supports and the United States opposes. In July Mr Bush froze military aid to Colombia, demanding that Mr Uribe's government sign an “Article 98 agreement” aimed at exempting American citizens in Colombia from the Court's jurisdiction. This Colombia refuses to do.

Colombian officials, who are routinely criticised by Americans for failing to uphold human rights, are puzzled by the Bush administration's stance. They point out that a bilateral agreement of 1962 gives legal immunity to American military and civilian advisers in Colombia. So far, only $5m in military aid has been frozen by the United States. According to a State Department source, Colombia could forfeit up to $140m next year, including money to equip a new, American-trained, army battalion to protect the country's main oil pipeline against guerrilla sabotage. However, Luis Alberto Moreno, Colombia's ambassador in Washington, said last week that the two countries are “very close to a solution” on the issue.

A second hurdle is the increasingly partisan nature of the debate about Colombia in Washington. Opponents have long questioned aid to Colombia's armed forces, some of whose officers collude with the paramilitaries. A vocal group of Democrats in the House of Representatives recently tried, but failed, to axe $73m in aid.

Perhaps because of these hurdles, officials in both countries are starting to talk about a Plan Colombia Two. This would be a smaller, leaner version, focusing on counter-terrorism, intelligence and anti-kidnapping activities. American officials talk of Colombia taking up more of the burden of helping itself.

That hope may be something of an illusion. In a report last month, the American Congress's General Accounting Office concluded that annual aid of at least $230m would be needed beyond 2005 to keep the drug war ticking over. Mr Uribe has already increased taxes, and will find it hard to raise them much higher. Even if he did, Colombia's army and police are hampered by a lack of trained pilots and maintenance staff. The Pentagon has spent $20m on training pilots and ground staff for the Hueys. But the first batch of 117 pilots will not complete basic training until December 2004.

All of this suggests that even after Plan Colombia ends in 2005, Americans are unlikely to cut and run, especially while Mr Uribe and Mr Bush remain in office. “Success tends to breed success. No artificial deadline will govern here,” says an aide to a senior Republican in Congress. Adam Isacson of the Centre for International Policy, a Washington group which opposes military aid to Colombia, says that with its costly wars in Iraq and Afghanistan, America cannot afford to spend $750m a year with no end in sight. “Yet there's still going to be this inexorable pull,” he admits.

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Venezuela's president

Recalling the revolution

Aug 21st 2003 | CARACAS
From The Economist print edition

California comes to Caracas

Get article background

AP

Not if Hugo Chávez has his way

NEARLY five years ago, Venezuelans elected as their president a former army officer best known for having led a failed coup in 1992. After 20 years of social and economic decline under a flawed two-party system, even those who had not voted for him were enthusiastic about Hugo Chávez's "Bolivarian revolution" (named for South America's independence hero). Having rewritten the constitution, he was re-elected, for a six-year term, in 2000. Even today he has a respectable 34% popularity rating. But under Mr Chávez, decline has accelerated. Polls show that two out of three Venezuelans now abhor the president, seeing him as an incompetent would-be dictator who must depart. As in California, they now trust in a recall referendum to achieve this.

Mr Chávez included this device in the new constitution, proudly defending it as "participatory democracy". Once past his term's mid-point (which fell on August 19th), he must face a referendum if 20% of the electorate (2.4m voters) call for one. On August 20th, tens of thousands of opposition supporters gathered to hand over to the electoral authority what they say are 3.2m valid signatures. So far, so clear.

But that is not the whole story. Mr Chávez has suddenly gone cold towards this aspect of participatory democracy. He is doing his best to ensure that the vote is never held. The National Electoral Council (CNE), which must organise the referendum, is not functioning: its members' terms have expired and the National Assembly has failed to name new ones. The supreme court, perhaps irregularly, has said it will do so instead. But one side or the other, or maybe both, seems bound to question its neutrality.

The government will be helped by the lack of clear rules. Nobody knows for certain what constitutes a valid signature, nor whether a fresh petition can be presented if the first one is ruled invalid, nor even whether the president could stand again if voted out. Mr Chávez and his followers will challenge the process every step of the way. If the referendum does take place, the opposition must obtain more than 3.7m votes to oust Mr Chávez, the number he won in 2000. That could be tricky if the *chavistas* turn to violence on polling day.

It was their conviction that Mr Chávez would thwart a referendum that led the opposition to try to topple the president by force, first in a failed coup last year and then with a two-month general strike. Such measures were justified, it said, because Mr Chávez had under his thumb such supposedly independent institutions as parliament, the courts, the CNE and watchdogs such as the public prosecutor.

But having fallen out last year with Luis Miquilena, his former political fixer, the president is finding that he no longer exerts unchallenged sway over these institutions. His parliamentary majority is down to four, the supreme court is split in half and even the public prosecutor—his former vice-president—sometimes seems to contradict the government line. Outsiders will watch closely too: in May the Organisation of American States brokered an agreement that would seem to commit Mr Chávez to the referendum.

Most opposition supporters, and some moderate *chavistas* too, now think that the recall referendum is

the best way out of Venezuela's agony. Even the sceptics believe it should be pursued, if only to prove that the president is no democrat. The next few months will provide the answer.

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Divorce in Chile

Tied up in knots

Aug 21st 2003 | SANTIAGO
From The Economist print edition

A reform divorced from public opinion

Get article background

ALONE in the Americas, in Chile divorce is illegal. That is tribute to the entrenched influence of the Catholic Church in a socially conservative country. For years, the centre-left government has been trying to change the law. Last week, the Senate finally agreed to debate a bill to legalise divorce; it may now become law sometime next year. But ironically, it may make it harder for Chileans to end their marriages legally.

In a hypocritical fudge, for more than half a century Chilean law has allowed marriages to be “annulled” by pretending that they were never valid. The formula is simple: just line up four witnesses to swear before a complaisant judge that the estranged couple provided false addresses to the registrar who married them. Annulment requires mutual consent, but rarely takes more than three months and can cost as little as $100. One in ten Chilean marriages now ends thus. At least two former presidents have arranged annulments for their children, says a lawyer in Santiago.

Opponents of divorce have fought a successful rearguard action against change. The divorce bill does have some advantages: maintenance arrangements, voluntary in annulments, would become compulsory (though might be hard to enforce). But consenting couples would have to wait three years for divorce; contested petitions would take five. Costs would be high. There is one loophole for a quick fix which some Chileans will doubtless exploit. Divorce would be available on demand in a few circumstances, such as violence, drug addiction or homosexuality.

Polls show that some 70% of Chileans now want divorce to be legal, and approve of cohabitation. But for the Church and the right-wing opposition, legalising divorce would be descending a slippery slope of moral decline. “Next, we'd be talking about abortion and the marriage of gays,” cries Hernán Larraín, an opposition senator. If only.

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Politics in Canada

Dark evening

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Twilight for Ontario's premier

AP

Eves, a visitor to the premiership?

ERNIE EVES, Ontario's Conservative premier, was having a miserable summer even before the lights went out across Canada's most populous province on August 14th. An outbreak of severe acute respiratory syndrome (SARS) in Toronto scuppered his plans for a spring election. No sooner had SARS begun to ebb than the province's export-based economy was hit by sagging American demand. Shrinking tax revenues and extra money to fight SARS forced Mr Eves to announce cuts in other spending of C$1.5 billion ($1.1 billion) over the next two years.

Unsurprisingly, the Tories have been trailing the opposition Liberals in the polls. The blackout is unlikely to help. Though the problem seems to have started across the border in Ohio, it has reignited debate about issues that the Conservatives would gladly sweep under the carpet.

One reason the province was importing electricity from American utilities last week was that Ontario Power Generation, a government-owned utility, has yet to restart a big nuclear power station east of Toronto which it shut down six years ago for safety reasons. The job was expected to cost C$800m; it has already gobbled up an extra C$2 billion, with no end in sight.

Mr Eves's Tory predecessor had begun to deregulate electricity. But Mr Eves went back on further plans to introduce competition. He bowed to labour and environmental activists last summer by cancelling the privatisation of Hydro One, which operates one of North America's biggest transmission grids. Then he pulled the plug on an emerging retail electricity market by imposing a four-year price freeze. When the blackout struck, prices in the unregulated wholesale market were about three times the fixed retail price.

These flip-flops have hit the province hard. They have halted private investment in electricity. But the public purse is already burdened with about C$30 billion of “stranded debt” which the government took over from Ontario Hydro, the former power monopoly broken up in 1999 supposedly as a precursor to privatisation.

The blackout may at least persuade Ontarians that they will have to pay more for electricity—but probably not under the Tories, whose five-year term runs out next June. Thwarted in the spring, Mr Eves had begun to plan an election for early October. Now, the pundits at Queen's Park, the provincial legislature, are divided as to whether he will go ahead, or wait till next spring. The premier insists he has been too busy over the past week to think about it.

Mr Eves's opponents pledged primly they would not play politics over the blackout. They then promptly did so, blaming Tory policies for plunging the province into darkness. It is 13 years since the Liberals last ran Ontario, so they bear no blame for the mess. Dalton McGuinty, their leader, is young but indecisive, and lacks a clear energy policy himself. The biggest winner could be the leftish New Democrats. Some of their policies, such as scrapping coal-fired power stations in favour of solar power and wind turbines, may be impractical. But their leader, Howard Hampton, is an energy expert, and adept at explaining where the Tories have gone wrong. That they have gone wrong now seems as clear as daylight.

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Ecuador

Bed of nettles

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From The Economist print edition

Rebuffs for an isolated president

Get article background

WHEN a legislator from Pachakutik, an Andean Indian party, defied orders to withdraw support for President Lucio Gutiérrez, he was whipped with an *ortiga*, a kind of stinging nettle, and doused in cold water. The Indian leaders may have something worse than this traditional punishment in mind for Mr Gutiérrez. The breakdown this month of his alliance with Pachakutik (which is named after the greatest of the Incas) leaves Ecuador's embattled president in deep and potentially terminal trouble.

That alliance was forged in January 2000 when Mr Gutiérrez, then a dissident army colonel, joined an uprising by Andean peasant farmers which ended in the ousting of the elected president. Since his own election last year, Mr Gutiérrez has had to retreat from many of the expensive promises he made to his erstwhile friends, and deal with the IMF instead. The last straw for the alliance was a bill to reform (ie, prune) the civil service, which Pachakutik disliked but which the Fund made a condition for a $205m loan.

To keep that loan, Mr Gutiérrez is supposed to gain approval for the civil-service law, tax changes and next year's budget, all by the end of September. To do so, he has only his own Patriotic Society Party, which has just six of the 100 seats in Congress. Arrayed against him is a centre to left opposition which now commands 61 seats. The president's only hope is to strike a deal with the Social Christians, a notoriously self-serving bunch, and scrape around for other support where he can.

The IMF has so far been fairly accommodating towards Mr Gutiérrez. Others are less so. Indians and other social groups have organised protest marches. Public-sector unions are angry about late paycheques and privatisation plans. Street vendors are riled that they may have to start paying tax. Businessmen are annoyed that the president has failed to push through the reforms. Ecuador adopted the dollar as its currency in 2000; it can no longer devalue its way out of trouble.

Despite all this grumbling, Mr Gutiérrez is still quite popular, approved of by one Ecuadorean in three. But some of the discontented may start linking up. Unless the politicians help him, Colonel Gutiérrez may be tempted to govern without them. Or the people, or some of them, may decide they want a new president. Time for cold showers all round.

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South-East Asia

The geography of terror

Aug 21st 2003 | BANGKOK
From The Economist print edition

New clues following the arrest of Hambali, the region's alleged arch-terrorist

WHO is behind the sequence of terrorist attacks across South-East Asia, and how can they be stopped? The answer to both those questions has become clearer in the past week, since authorities in Thailand nabbed Hambali, the alleged mastermind of much of the violence, and Indonesian police rounded up several suspects in the recent bombing of the J.W. Marriott hotel in Jakarta. The big question now is how the governments concerned will use this new information.

Authorities around the region had fingered Mr Hambali, also known as Riduan Isamuddin, as the instigator of last year's bombing in Bali, which killed some 200 people, and perhaps also the Marriott attack. The government of the Philippines has indicted him for involvement in a bombing campaign in Manila in 2000 which killed 17 people, while Indonesian police say he was behind a spate of church bombings the same year which killed another 19 people. American officials, for their part, say he helped both the September 11th hijackers and the bombers of *USS Cole*, an American warship. No wonder that "Baby bin Laden", as Mr Hambali is sometimes called, was the most wanted man in the region. President George Bush announced the news of the arrest himself.

Mr Hambali had been on the run since late 2001, when police in Singapore uncovered a plot he was hatching to blow up western embassies there. He next surfaced in Thailand, where he is thought to have conceived a strategy to target vulnerable spots frequented by westerners in Bangkok, such as hotels and bars, rather than better protected embassies and aircraft. That decision, in turn, is supposed to have led to the Bali and Marriott bombings.

In pursuit of Mr Hambali, governments in South-East Asia gradually uncovered the regional terrorist network that he had helped build, which they dubbed Jemaah Islamiah (JI). But he also seems to have

been a member of al-Qaeda's inner circle. At any rate, it was through his connections to Khalid Sheikh Mohammed, the most senior al-Qaeda leader yet captured, that American spies eventually tracked down Mr Hambali. They caught a courier who had carried money between the two men, who led them to other messengers, one of whom brought them to a flat in Ayutthaya, about an hour's drive from Bangkok, where Mr Hambali was living with his wife. He had trimmed his hair, shaved his beard and traded in his habitual white robes for shorts and T-shirts, but he could still be identified from old photographs.

No sooner had Thai police arrested Mr Hambali than American agents whisked him off for interrogation. But he is unlikely to provide them with any new intelligence about al-Qaeda, since his closest contacts in the group are already under lock and key. He might be of more use to the Indonesian police, who say Mr Hambali was in touch with terrorists in Indonesia, and transferred some money that may have been used to pay for the Marriott bombing. But his American jailers have not yet given Indonesia access to him.

The Indonesians hope that information from Mr Hambali could help them prevent another attack. They have arrested four suspects since the Marriott blast, but not the bomb-maker, nor many other senior figures in JI. But the authorities still have plenty of leads to follow up. Mr Hambali's contact list might be extensive, but Indonesian authorities have arrested some 50 other members of his network, with contacts of their own. Malaysia, Singapore, the Philippines, Thailand and Cambodia have all detained JI suspects.

Moreover, JI does not follow a typical cell structure, in which members know almost nothing about the workings of the larger group, according to Sidney Jones, the author of several reports on the organisation. Instead, she says, there are two structures, one mounting attacks and the other raising funds and recruiting members. There is some cross-over between the cells. At least three different cells, from the cities of Semarang, Bengkulu and Jakarta, had some role in the Marriott attack, according to the police, while other JI members in custody were able to identify the body of one of the suspected bombers. Many members also seem to have studied together and fought together in Afghanistan, providing even more connections.

Many Indonesian parliamentarians argue that the best way to fight JI is to improve intelligence gathering. Instead, the government is proposing legislation to give the police and army repressive powers, although there is no evidence that such measures could have prevented any recent attacks. Several ministers, and the head of the armed forces, say the security services should be free to hold suspects indefinitely without charge.

Thailand, too, is short-circuiting constitutional norms in its fight against terrorism. Thaksin Shinawatra, the prime minister, has spent much of the past year denying that there were any terrorists in the country. But he now says the threat of terrorism is so imminent that there is no time for parliament to debate new counter-terrorism laws. Instead, he issued two by decree this month. The constitutional court is now debating their legality.

In the meantime, the government is sending out conflicting signals about the risk of future attacks in Thailand. Doubtless with a view to skittish tourists, Mr Thaksin said that all foreign terrorists in Thailand had been caught. But he also said that associates of Mr Hambali had scouted out the site of a conference to be held in October, which Mr Bush is planning to attend. At the same time, the government is busily sacking some of its more lax immigration agents—just in case.

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Dealing with North Korea

Small expectations

Aug 21st 2003
From The Economist print edition

Next week's talks may not get far

Get article background

EPA

Pinch Kim hard

FOR all the effort that has gone into getting them started, no one is expecting a lot from the talks about North Korea's nuclear misbehaviour that are due to open in Beijing on August 27th. Distrust of the North's intentions is such that the other five around the table—America, South Korea, Japan, China and Russia—would be happy with a date to meet again. Talks in April between America, North Korea and China broke up in some disorder when the North Koreans privately told the Americans that they already had a couple of nuclear bombs, were planning more and, they hinted, might test them or sell them.

America had long suspected that North Korea had enough plutonium for two bombs, and in 1994 the Clinton administration had done a deal that traded energy help for an end to all further plutonium production. The latest crisis erupted last October when, presented with American evidence, the North admitted to a second illicit programme, this one to enrich uranium. Since then, it has pulled out of the Nuclear Non-Proliferation Treaty and claims to have extracted enough plutonium from previously stored spent fuel-rods for possibly five or six bombs.

Its strategy is to behave as provocatively as possible so as to frighten the neighbours and pressure America to meet its demands: these include a non-aggression treaty, diplomatic recognition and energy assistance (all to be provided before it gives up any bombs). But that plan has backfired. America insists that North Korea deal with all the countries threatened by its behaviour, especially South Korea and Japan, and that it must first give up its nuclear activities “verifiably, irreversibly and completely”. Alarmed by the North's belligerence and talk of a “nuclear deterrent force”, China has pushed it into next week's talks. A miffed North Korea asked for Russia to be there too.

And then what? No one knows North Korea's true intentions: will it eventually deal or try to hang on to its weapons? America and its allies are still debating just what proposals they might put on the table too—with South Korea wanting to offer more incentives than America is comfortable with.

American officials have made it clear repeatedly that they will not reward North Korea's leader, Kim Jong Il, for giving up weapons programmes that he should never have had in the first place. They have discussed forms of words that might reassure him, as George Bush has said publicly on several occasions, that America has no intention of attacking his country, perhaps with Congress somehow formally taking note. But they rule out signing a non-aggression treaty.

They do accept that dismantling North Korea's nuclear programmes would take time, even if it were to come clean about where they all were (not a racing certainty, given past cheating). Mr Bush's national security adviser, Condoleezza Rice, recently had kinder words than most of her colleagues for the Clinton administration's 1994 deal, while suggesting that it left North Korea too free to cheat on regardless. Some sort of similar package deal—differently sequenced and with tougher conditions—may thus be in the works.

And if North Korea drags its feet? China continues to block efforts to pressure North Korea through the UN Security Council. But America and ten other countries (it is hoped with more to follow) have agreed to

intercept the shipments of missiles and contraband that Mr Kim uses to finance his nuclear imports, and to disrupt those too where possible. Pinch him hard enough, is the idea, and he is more likely to see the benefit of giving up his bomb.

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Australia and the island-states

The unpacific Pacific

Aug 21st 2003
From The Economist print edition

Plans for a police force

Get article background

THE island-states of the Pacific have acknowledged that Australia is best suited to lead them. On the face of it, their choice seemed inevitable. Last month Australia led a Pacific force to restore order in the Solomon Islands. It is the biggest donor of aid to its neighbours. All the same, the decision on August 16th by the South Pacific Forum, a group of 16 nations, to appoint an Australian, Greg Urwin, to be its secretary-general took two days of haggling. Previously, the post has been held by a member of a small state. The idea of having a regional "leader" seemed unnecessary. The islanders were content that the forum should be an agreeable club, meeting once a year for a pleasant get-together.

But this year, when the forum met in Auckland, the islanders were reminded that the Pacific has been growing less pacific. Island-states have been rocked by coups, mutinies and ethnic clashes. Globalisation, said Helen Clark, prime minister of New Zealand, had brought money laundering and drug smuggling to the Pacific. John Howard, the Australian prime minister, brought to the forum a plan to establish a training centre for members of a future regional police force. Located in Suva, the capital of Fiji, it will aim to train 900 police a year for operations in the Pacific.

Australia is naturally keen to avoid the appearance of being a Pacific "big brother". Mr Urwin, a retired diplomat, is a thoughtful choice to lead the forum. He has served in Fiji, Samoa and Vanuatu and is married to a Samoan.

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Afghanistan

On the Alamo

Aug 21st 2003 | KABUL AND GARDEZ
From The Economist print edition

Dealing with the rising violence

Get article background

Sherzai still went peacefully

IT IS a bloody August in Afghanistan. The insurgency in the disaffected Pushtun south of the country is gathering pace. The death toll is the highest since the Taliban regime fell in November 2001. On August 13th, 64 people were killed in multiple attacks across the south. On August 17th, several hundred neo-Taliban swept across a porous border from Pakistan into Paktika province, storming a police station and gunning down eight Kabul loyalists, including the local police chief and his son. Fifteen of the attackers, including, it is claimed, some Arabs, were said to have been killed. It was impossible to be sure: the attackers shouldered most of their casualties back into Pakistan. Every day this week has seen more attacks.

Intelligence suggests that Mullah Omar, the former Taliban leader, is overseeing many of the actions in the south. The insurgency now includes, in addition to al-Qaeda survivors, supporters of a fallen warlord, Gulbuddin Hekmatyar, tribal malcontents out to settle personal scores, and drug traffickers who may be using raids as cover for moving their wares into Pakistan. The boldness of the attacks is designed to scare the Afghan government and its international supporters into calling off their disarmament and voter-registration drives, set for the autumn. The United Nations envoy, Lakhdar Brahimi, wants peacekeepers for the provinces. But it would take tens of thousands of new troops to keep peace in the wild south. And the bigger the force, the bigger the target. American garrisons in places such as Gardez, the capital of Paktia province, already labour under rocket attacks. Americans wryly call that garrison the Alamo.

The president, Hamid Karzai, is betting on a government reshuffle to regain authority. On August 13th he removed a warlord, Gul Agha Sherzai, from his post as governor of Kandahar. His more technocratic replacement, Yusuf Pushtun, will now try to improve security for Kandaharis. The move had American backing, though some say that Mr Karzai is doing little more than shuffling the deck. Mr Sherzai, they point out, was sweetened with a cabinet position. But 14 security chiefs across the south have been replaced in the past month. The departure of Mr Sherzai is good news. Few expected Mr Karzai to sack him; even fewer thought the warlord would peaceably walk away.

A parade in the national stadium to mark Afghanistan's 84th anniversary of independence from Britain, on August 19th, was a morale-booster. A tiny brass band played off-key but spiritedly. Mr Karzai congratulated his countrymen on seeing off the British, the Russians and, maybe, the terrorists. But real independence, he said, would come only with peace and development.

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Afghanistan's other harvest

Breadwinners

Aug 21st 2003
From The Economist print edition

Best for a quarter-century

Get article background

ALTHOUGH Afghanistan is notorious as the world's leading opium producer, it is also doing well with cereals, a rather more respectable crop. According to a joint report by the UN's Food and Agricultural Organisation and World Food Programme, cereal production this year is expected to be 5.37m tonnes, even higher than the previous peak of 4.5m tonnes in 1976, when the country was last self-sufficient. High-quality seed and well-fertilised fields have helped. The bumper crop, along with reconstruction, should provide more jobs, and, it is hoped, a better standard of living.

Not all the farmers are happy, though. In the productive northerly provinces such as Kunduz, Baghlan and Balkh, prices have fallen because of the good harvests. At the same time the cost of some other goods is rising. Repairs to the recently reopened Salang tunnel, a vital link between north and south Afghanistan, will hinder movement of grain. Many Afghans, especially those in insecure areas such as the Central Highlands, will continue to rely on food aid.

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China and Japan

Ghosts of the past

Aug 21st 2003 | BEIJING
From The Economist print edition

Grumbles mar an anniversary

Get article background

THIS week, 25 years ago, China and Japan normalised relations. It was assumed that the two countries would note the anniversary by firming up plans for a summit between the Chinese leader, Hu Jintao, and the Japanese prime minister, Junichiro Koizumi. No doubt that will go ahead, but meanwhile the two countries have been wrestling with what China calls “problems left over from history”.

The Chinese were angered that, once again, Tokyo's Yasukuni shrine was being honoured. On August 15th four Japanese government ministers and 55 parliamentarians visited the shrine, a memorial to the country's war dead but also, controversially, to some of its war criminals. China regards such visits as proof of Japan's failure to abjure its militarist past. Chinese websites are once again filling up with anti-Japanese material. Even China's foreign ministry used its website to urge Japan to face up to its past. This, it said, ponderously, “is conducive to the healthy and steady development of friendly and neighbourly bilateral relations”.

There had been earlier outrage over the discovery on August 4th of a dump of mustard gas containers in the north-eastern city of Qiqihar, left behind by the Japanese at the end of the second world war. Construction workers at the site broke open the containers. More than 40 people were said to have been taken ill. China's state-run media have carried photos of the victims and their injuries. Two are said to be in critical condition.

The incident rekindled long-festering indignation over Japan's harsh occupation of China and its experiments with chemical and biological weapons. Japan has accepted blame, expressed “deep regret” over the incident, sent medical teams to treat the victims, and promised to keep looking for other discarded weapons.

But for some critics that is not enough. They are urging China to punish Japan by barring it from a $16 billion project to build a high-speed rail link between Beijing and Shanghai. While the Japanese know a great deal about building bullet trains, the Chinese government is aware that a hard line towards Japan plays well with the Chinese public. Given the low-level reception afforded to Japan's transport minister, Chikage Ogi, during her visit this month, there seems a fair chance that French or German companies may get the business instead.

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The Iraqi bombs

Why the United Nations is vulnerable

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From The Economist print edition

EPA

The UN had tried to make itself look different and peaceful, but it didn't work

“WHY, why the United Nations? They're not the Americans,” cried out one horrified Iraqi journalist, as he stared at the rubbled corner of the organisation's Baghdad headquarters. At least 20 UN officials, Iraqi employees and others were killed on August 19th when an explosives-laden flatbed truck was detonated, probably by a suicide bomber, by the compound's wall. Among the dead was the UN's special representative, Sérgio Vieira de Mello (see obituary), who was meeting with colleagues in his office when the bomb went off.

Mr Vieira de Mello had known that he made an easy target. In a briefing to the Security Council some three weeks before his death, he remarked that the UN's presence in Iraq “remains vulnerable to any who would seek to target our organisation.” He did his best to make sure that no one would want to target it.

Seizing every chance that he could, the Brazilian official declared that his top priority was to protect the Iraqi people under occupation. He called for the UN, rather than the American-dominated coalition, to control Iraqi oil revenues, and for the coalition to devolve as much power as possible to the 25 Iraqis who sit on the country's Governing Council. In his last published interview, with the Brazilian newspaper *O Estado de S. Paulo*, he sympathised with Iraqis undergoing the “humiliating” experience of occupation, pointing out that he would not have wanted to see foreign tanks in his own country.

In case such statements did not filter down to the public, the UN's long-time headquarters at the Canal Hotel did its best to look like a neutral body in a country at peace. The barbed-wire and barricades that surround coalition facilities were eschewed, in favour of a plain concrete wall. And the UN refused all but token American military protection at the site.

Despite Mr Vieira de Mello's efforts, however, it would not be terribly difficult for any terrorist cell that spotted the UN headquarters as an easy target to go on to invent a rationale as to why it would be a legitimate one. The Canal Hotel had housed UN weapons inspectors, which many Iraqi nationalists considered an insult to their sovereignty. The Americans and British cited Security Council resolutions as the legal basis of their invasion. Finally, five days before the blast, the Security Council had “welcomed” the coalition-appointed Governing Council, which some Iraqi nationalists consider a puppet of the Americans.

Shots had previously been fired at a UN convoy in Mosul, and possibly at the Canal Hotel itself. Other

organisations in Iraq have also been targeted, including the International Red Cross, one of whose employees was killed in a highway ambush in the southern town of Hilla.

The Canal Hotel blast, however, was a much deadlier attack than these incidents, or the usual hit-and-run ambushes and roadside bomb detonations that constitute the bread-and-butter of anti-coalition activity in Iraq. There is only one real precedent: the car bombing of the Jordanian embassy on August 7th, in which 17 people died. Initially, there was speculation that al-Qaeda—which favours spectacular attacks on high-profile soft targets—was responsible, but statements by American officials suggest that the investigation of at least the Jordanian incident is focusing on indigenous Iraqi groups.

Still, there is no reason why the Iraqis cannot import technical expertise, and possibly terrorists, from abroad. Thanks to weak border controls, the lack of an effective police force, and a plethora of targets, Iraq has become, in the words of the senior American commander, Lieut-General Ricardo Sanchez, a “terrorist magnet”.

There have been reports from Saudi Arabia that police in the kingdom are tracking down the whereabouts of 3,000 young men who are feared to have slipped across the border to wage *jihad*, just as a previous generation went off to Afghanistan. Turkish diplomats have claimed that al-Qaeda fighters are moving through the mountains from Iran.

Although many Iraqis express their revulsion at the bombing of the Jordanian embassy and the UN headquarters, the two deeds undoubtedly serve the interests of the anti-coalition fighters. Iraqis are reluctant to blame their compatriots, even Baathist hardliners, for the blasts. The air is thick with exotic, and highly unlikely, conspiracy theories, ranging from Ahmed Chalabi, head of the Iraqi National Congress, taking revenge on Jordan for financial fraud charges filed against him in the 1980s, to the Americans wanting to end all talk of multilateralism. Perceptions may change if the coalition can put a face to the bombings but, at least for now, Iraqis are hesitant to associate the seemingly random havoc with the low-level attacks aimed directly at American troops.

But the attacks also reinforce the belief, held by Iraqis and by many outsiders, that the United States is not able to govern the country. Kofi Annan, the UN's secretary-general, hinted at this in a post-bombing press conference, in which he said that he had “hoped that, by now, the coalition forces would have secured the environment for us to be able to carry on...economic reconstruction and institution building,” but “that has not happened.”

The UN, whose agencies provided post-war emergency relief, and which is now developing programmes on human rights and press freedom as well as reconstruction work, has denied reports that it will leave the country. Mr Annan declared that the UN will not be “intimidated”. But others may be. A number of firms working on reconstruction contracts are said to be considering pulling out because of the risk to their employees; others who have won contracts may delay implementing them.

Limping slowly

Reconstruction is already crippled by sabotage. Iraq's main export oil pipeline to Turkey burst into flames on August 15th, only two days after its long-awaited return to service. Oil sources have said that it will take weeks to repair what is almost certainly an act of sabotage. Export revenues are supposed to provide most of the money to be used by the coalition-supervised interim government. But Iraq has been exporting less than half the 1.5m barrels a day it needs to meet its end-of-year target. Paul Bremer, the coalition's administrator, estimates that the pipeline bombing costs Iraq $7m a day; overall, he says, sabotage has cost the country “billions”.

Insurgents also target living conditions directly. When a Baghdad water main ruptured on August 17th, nearby streets were flooded, and water was cut off from an estimated 300,000 Iraqis for the next two days. Reports have variously attributed the leak to a rocket-propelled grenade fired from nearby, a small explosive placed by hand, or by someone simply sticking a penknife into the pipe.

The pipeline leak was unusual, in that it was a visible act in a densely populated area. “Saboteurs: this has nothing to do with resistance,” cursed a passing driver. Normally, however, Iraqis sense the effects of insurgency less directly—power that doesn't come on or salaries that are paid late—and it is the visible American military presence that is blamed, rather than the invisible insurgents.

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Israel and the Palestinians

After the Jerusalem bomb

Aug 21st 2003 | JERUSALEM
From The Economist print edition

The ceasefire, already broken, is now in tatters. Yet the Palestinian Authority has promised to take action against Islamic militants

Get article background

BACK to war. On August 21st, an Israeli helicopter attack on Gaza city killed Ismail abu Shanab, a senior Hamas leader. Hamas vowed revenge, announcing itself released from the so-called ceasefire.

Reuters

A bus returning from prayer

The Israeli army's attack, on West Bank cities as well as on Gaza, was in reprisal for a gruesome suicide bombing in Jerusalem that, two days earlier, had killed 20 passengers on a crowded bus. Ministers said there would be sustained military action aimed chiefly at Hamas, unless the Palestinians themselves moved against the Islamist organisations. The Palestinian Authority (PA), under intense pressure from America, announced a series of stern measures against Hamas and Islamic Jihad.

The bomber, a 29-year-old imam in a Hebron mosque, married with a family of his own, chose a double-compartment bus crammed with Orthodox families returning from prayers at the Western Wall. The carnage was horrendous, with infants among the dead and wounded. It was by far the bloodiest attack since the shaky ceasefire took effect in early July.

Hamas and Islamic Jihad in Hebron vied to claim responsibility. They said it was a response to the killing by Israel last week of the Islamic Jihad commander in the city, Muhammad Sidr. The Israelis claim they intended only to arrest Mr Sidr. From now on, however, the policy of “targeted killings” is clearly being pursued.

In Gaza, prominent militants quickly went underground, fearing both Israeli rockets and the security forces of Muhammad Dahlan, the PA's minister of defence. The PA must take action now, the American State Department declared on August 20th, “to dismantle the capabilities of the terrorist groups”. Colin Powell, the secretary of state, made the point forcefully in phone calls to the prime minister, Mahmoud Abbas. If you act, he promised, the Israelis will hold off.

Moderate Israeli ministers delivered the same message. “It's now or never for Mr Abbas,” said the minister of justice and Shinui Party leader, Yosif Lapid. Hardliners scoffed at any such expectation. Avigdor Lieberman, head of the National Union and minister of transport, suggested bombing Yasser Arafat's headquarters in Ramallah “with everyone in it”.

Its mind thus concentrated, the Palestinian cabinet resolved to arrest Hamas and Islamic Jihad operatives, to shut down their newspapers and to assert tight control over their mosques, schools and welfare agencies. On the night of August 21st, Mr Abbas and his ministers presented their proposals to Mr Arafat and the Palestine Liberation Organisation executive in Ramallah. The prime minister threatened to resign unless he was given full control over the PA's security apparatus. The executive solemnly resolved that all Palestinians must obey the PA. Illegal weapons would be rounded up. Armed demonstrations would not be allowed. Outside, there was the rumble of Israeli tanks.

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Amin's legacy in Uganda

Bloody tyrant, now a good sort

Aug 21st 2003 | ARUA
From The Economist print edition

Memories of Uganda's late despot are surprisingly short

NO ONE cried when Idi Amin died, except in Uganda, the country he terrorised into penury in the 1970s. Amin, who passed peacefully away on August 17th, after 24 years of comfortable exile in Saudi Arabia, presided over the deaths of between 100,000 and 300,000 of his countrymen. But hundreds of mourners attended memorial services at a mosque in Kampala, the capital, and in his home town, Arua. His ethnic brethren and fellow Muslims eulogised him as “a great man”.

AP

He had his good points, apparently

This was the dictator whose secret police used to roam the streets in sunglasses, stuffing people into car boots, never to be seen again. On seizing power in a coup in 1971, he promised a swift return to democracy, but instead set about murdering all perceived or potential opponents, including Uganda's Anglican archbishop, its chief justice, and a huge chunk of the army. When an army of Tanzanians and Ugandan exiles overthrew Amin in 1979, they found bodies stacked in the basement of his euphemistically-named Bureau of State Research.

Amin's economic management was erratic, too. In 1972, he announced that God had told him to expel some 40,000 Ugandans of Asian origin, the country's traditional merchant class. He confiscated their homes, shops and factories and gave them to his cronies, declaring that this would create “black millionaires”. But his cronies mostly had no idea how to run their new businesses, so the economy collapsed. By the end of his regime, store shelves were bare and Ugandans were forced to scrounge even for simple goods.

Besides murdering and impoverishing his people, Amin also made his country a laughing stock. Among other antics, he sent taunting telegrams to Britain's queen, declared himself king of Scotland, challenged the Tanzanian president to a boxing match, and staged a mock invasion of South Africa on an island in Lake Victoria.

On his home turf of north-western Uganda, however, Amin is remembered as a black leader who stood up to whites, as a rugby-playing man of the people, and as a preacher of African economic empowerment. “People were happy when he chased out the Asians,” said Haruna Imaga, 61, a former member of parliament. “Amin had his good points and his bad points,” conceded Major-General Isaac Lumago, 63, an ex-army chief of staff. “He was approachable...If he saw people dancing local dances, he

would join in.”

It is perhaps not surprising that his ethnic kin prefer to remember the less bloody aspects of Amin's rule. His victims were mostly from rival tribes, and he showered his own people with patronage. What is odd is that many others give him the benefit of the doubt. “It's just the nature of African governments: torture and killing,” said Adams Wasswa, a young electrician.

It has taken Uganda a long time to recover from Amin's legacy. The mayhem continued even after he fled into exile. Rebel armies made up of his former soldiers plagued the government of his successor, Milton Obote, whose forces probably ended up killing as many people as Amin's had. Mr Obote was overthrown by a military junta, which was toppled in turn by Yoweri Museveni, the current president, in 1986. By this time, average incomes were 40% lower than in 1971.

Mr Museveni, however, took bold steps to mend matters. He offered the Asians their assets back, and evicted some of the black Ugandans who had grabbed them. About 40% of the property confiscated by Amin was eventually returned to its original owners. Uganda is one of only a handful of African states to have seen a substantial reversal of the flight of capital and skills. Asians, 15,000 of whom now live in Uganda, have invested an estimated $1 billion in the last decade or so.

Uganda's tribes now coexist, mostly peacefully. Mr Museveni has urged reconciliation. He has invited many of Amin's henchmen home from exile, promising them amnesty. One of Amin's former generals is now a deputy prime minister. In a way, the reconciliation has worked too well. Schoolchildren learn little about Amin, and revisionism is rife. Since the median age is about 14, most Ugandans have no memory of the Amin era.

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Moroccan terrorism

The gangs of Sidi Moumen

Aug 21st 2003 | CASABLANCA
From The Economist print edition

Sentencing the men behind the martyrs

IN THE bad old days of the 1970s, judges used the pre-dawn hours to deliver sentences by the dozen to left-wing defendants. Following the same sinister timing, but in changed circumstances, verdicts and sentences were pronounced in the dark early hours of August 19th on 87 men accused of involvement in the Casablanca bombings in May that killed 45 people, including 12 suicide bombers. After a swift trial—a month of intermittent and abbreviated hearings—none of the accused was acquitted: four (three of whom were in the suicide team but changed their minds) were sentenced to death, 39 to life imprisonment, and the rest to various terms.

Many of the accused belonged to small gangs that liked to hang out in Sidi Moumen, a poor neighbourhood on the outskirts of Casablanca. To an outsider's, or parent's, eye, the gangs looked like groups of friends, albeit with reactionary religious views. But according to testimony extracted from defendants by the security services—the judge brushed aside allegations of torture—the Sidi Moumen gangs were taking orders from a Fez shoe merchant, Abdelhaq Bentassir. Mr Bentassir died at the hands of the security services in late May. Security sources then suggested to the foreign press that he was a point-man for conspirators abroad.

Rather like the groups that held sway in Algiers during the savage civil war in the mid-1990s, though on a much smaller scale, Sidi Moumen gang members swore allegiance to leaders known as emirs (princes), and sometimes mingled their hardline Islamist values with petty crime. They held vigilante patrols to enforce public morals. But, beyond this, the young men had martyrdom on their minds.

On trips to the wooded Oued el Maleh valley north of Casablanca, where nationalist militants once hid from the French authorities, they limbered up and listened to inspirational tapes as they prepared themselves for *jihad*, ready to defend Muslims who were under attack, everywhere from Chechnya to Palestine, from Afghanistan to Kashmir.

A group of aspiring martyrs, mainly in their 20s, were selected to strike city targets on the evening of May 16th. Others were primed to blow themselves up among tourists in Marrakesh and Essaouira, though these plans were never carried out.

The emir of one Sidi Moumen gang, Abdel Razaq Rtiwi, had been displaced after he let his daughters go out with uncovered heads, and his sisters accept invitations to parties, but was still allowed to continue in the group. He was one of those who had argued that the bombing would not be martyrdom but suicide, forbidden by Islam. But he lost the argument, and now faces a 30-year stretch in prison.

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The Rwandan genocide tribunal

Prosecutor accused

Aug 21st 2003
From The Economist print edition

Did Carla del Ponte do too little or too much in Rwanda? Both

Get article background

THE chief prosecutor at the International Criminal Tribunals for both Rwanda and Yugoslavia, Carla del Ponte, has tried to do a lot but has ended by doing too little. Now she looks like losing half her job. The United States, and Kofi Annan, the UN's secretary-general, want to strip her of her role investigating the 1994 Rwandan genocide, and the Security Council is expected soon to agree. She will probably be replaced by her deputy, Bongani Majola, a South African law professor.

Ms del Ponte, who took over as chief prosecutor in 1999, spent an average of only 35 days a year in Africa, and left the two most important posts in her office vacant for months on end. This led to huge delays at the tribunal: since 1995, only 15 people's trials have been completed. At the same time, she set ambitious targets: 62 others have been indicted and a further 24 suspects are being investigated. This has overloaded the court (though it is still far less clogged than Rwanda's own courts for trying the small fry) and means that it may not meet the 2008 deadline for winding up the tribunal.

Members of the council are not amused by her delays and ambitious targets. The tribunal costs over $100m each year and suffers from over-billing, time-wasting, collusion and internal quarrels. These deficiencies have repeatedly been pointed out by human-rights observers as well as by the UN's own Office of Internal Oversight Services, although the situation has improved recently.

But there could be darker motives for wanting to remove Ms del Ponte. She wants to investigate the retaliatory atrocities committed by the Rwandan Patriotic Front (RPF), as it fought to seize control of the country from the authors of the genocide, as well as the genocide itself, in which some 800,000 people were killed. According to a report written in October 1994 by Robert Gersony, an envoy of the High Commissioner for Human Rights, the RPF was responsible for massacres resulting in 25,000-45,000 deaths between April and August 1994 (the genocide was April to June). The report was suppressed, and officially does not exist.

The RPF are also thought to have been responsible for the deaths of at least 200,000 refugees in Congo in 1996 and 1997. Roberto Garretón, a UN representative, reported that these massacres “could constitute acts of genocide”. But the tribunal's mandate covers only acts that took place in 1994.

The Rwandan government has obstructed Ms del Ponte in many ways. Her complaints to the Security Council were put to one side, and in May, under pressure from America, she agreed to drop her investigations into the role of the RPF. Her real crime may have been that she tried to do too much, not that she did too little.

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Kenyan elephants

When man and elephant collide

Aug 21st 2003 | MASAI MARA NATIONAL RESERVE
From The Economist print edition

How to keep the elephants from their favourite appetisers

GLADIATORS versus elephants was this month's spectacle, entertaining a jeering, cheering crowd of 500 in a village on the edge of the Masai Mara Reserve in western Kenya. The men won, with difficulty. With spears and sticks, it took them from 7am to 3pm to dispatch the two bull elephants who had strayed into their village. An uncommon blood sport, it mirrored the conflict between man and elephant that has burgeoned in Africa since the ban on ivory sales allowed the elephant population to swell.

In the Transmara outskirts of the reserve there is grazing land to spare, for elephants and for the Masai's herds. But two things happened. Non-Masai migrants leased land from the Masai to cultivate maize. And the elephants developed a taste for the delectable corn.

They wait for the crops to ripen, then emerge from their forests to gobble up a field-full in the night. The poor farmer, losing everything, gets no compensation. Even if he manages to harvest his crop, elephants sometimes devour his tanks of grain. They are dangerous, too. Four people have been killed, and five injured, in the area in the past two years. Mostly they are men who, tipsily rolling home at night from some decrepit little bar, blunder across an elephant trail. Others are children, and parents now keep their children from school until late in the morning when the elephants are safely back in the forest.

The World Wide Fund for Nature (WWF) which is running a project on human-elephant conflict, would wish the migrants gone from the edges of the reserve. Short of that, the project head, Noah Sitati, seeks ways of joint survival. Suggestions that the farmers switch to cash crops, like tobacco or chili which elephants hate, fall on stony ground. So Mr Sitati, and his local volunteers, are helping the villagers to build primitive watchtowers in trees near the crops, to arrange rotas of torch-armed men to guard the ripening fields through the night, and to erect rope barriers, rubbed in engine oil and chili.

Nothing works very well. The elephants, in search of their delicious titbits, often outwit the villagers. And the antagonism between the two grows. The men who battered the two elephants to death had lost no crops, nor even seen an elephant nearby before.

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Sweden, Denmark and the European Union

Changing views—in opposite directions

Aug 21st 2003 | COPENHAGEN AND STOCKHOLM
From The Economist print edition

Swedes look ready to reject a switch to the euro. Danes would welcome one, but are not so sure about the new European constitution

Get article background

CONTRARY folk, Scandinavians. When the Swedes' Social Democratic prime minister, Goran Persson, last November announced a referendum on adopting the euro, he was confident they would say yes. Polls showed a small but steady majority that way, and he had just been re-elected. Yet barely had he made up his mind than the voters changed theirs. Today, after months of “yes” propaganda from his party and the opposition alike, and lobbies advertising as if kronor grew on trees, polls still show a solid majority saying no.

There are still three weeks before the vote on September 14th, and 20% of undecideds to go for. But can he do it?

Plenty of carrots are on offer. Vote yes, and, it is said, the economy will boom, creating 100,000 new jobs. Mr Persson claims typical home-buyers will save SKr1,000 ($120) a month in lower interest rates. Ann-Christin Nykvist, the consumer minister, says a family with small children will gain SKr30,000 a year as competition cuts prices. And then there's stick. Vote no, says Mr Persson, and cutbacks in the welfare state may be needed this very autumn.

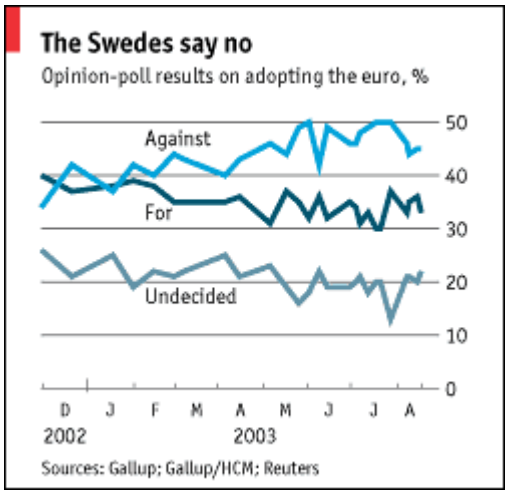
Yet for every pro-euro economist another can be found who says Sweden is better off controlling its own interest rates. It now has more growth and less unemployment than the euro zone. So the yes side has turned to politics: the euro is a peace project that helps unite Europeans; without it, Sweden will be isolated and without influence on the EU's big decisions about the future. And so on.

But the Swedes have a long history of being outside. They do not belong to NATO, and in 1994 voted to join the EU only by 52% to 47%. Denmark too sticks to its krone, and Norway has said no to the whole EU project. Nor is Mr Persson's camp united. Core Social Democratic voters—like the LO, the powerful blue-collar trade-union body—fear for Sweden's generous welfare state and the high-tax model that supports it. Even the cabinet is split. Five ministers are openly anti-euro, including the deputy prime minister, Margareta Winberg, and the industry minister, Leif Pagrotsky. Many voters feel Sweden can simply wait and see; as Mr Pagrotsky puts it, “I'm not saying a no is forever.” And Mr Persson's comment early in the campaign that a no victory would mean another referendum suggests they are right.

Yet the no side is disorganised, and it has thrown up no charismatic leader. The yeses can count on more money, the party machines and a traditionally deferential electorate. Mr Persson can still hope.

One person hoping with him is Denmark's centre-right prime minister, Anders Fogh Rasmussen. His country's voters are notoriously suspicious of the EU: they have already held two referendums on the euro. Yet they too have changed their minds on the euro—in its favour. One poll this week showed pro-euro support at 54%. Other polls in recent months have recorded 60% or more.

Why? Pollsters say that the more Danes travel on holiday around Europe and meet the euro in practice, the more they like it. Nor would a Swedish no deter them: 90% told this week's poll that that would not alter their view—and a few even said that it would make them still more pro-euro. Yet in September 2000, when Danes voted on the issue, 53% said no.



Support for the euro is broad-based. Mr Fogh Rasmussen's government rarely misses an opportunity to sing its praises. Ditto the Social Democrats and Social Liberals, the two main opposition parties. Ditto the governor of the central bank, business and trade-union leaders and the media. Organised scepticism is confined to the far-left and far-right fringes of parliament and a pair of non-parliamentary movements. So surely another referendum must end in a yes? It might not.

Two hefty obstacles stand in the way: Denmark's decade-old opt-outs from the EU's Maastricht treaty and the EU's proposed new constitution. The opt-outs let Denmark exclude itself from EU co-operation on the single currency, security and defence, justice and home affairs, and EU citizenship. They can only be reversed in a new referendum; Mr Fogh Rasmussen has promised one, knowing that most Danes would be happy to agree. But he has also promised a referendum on the EU constitution—to be precise, on a treaty accepting it—some time in 2004, after the EU's national leaders have put the finishing touches to it. Logic says hold the two referendums together. Politics does not.

Danes want to abolish the opt-outs, but this enthusiasm does not extend to a new EU constitution. To many Danish ears, that phrase smacks of an unacceptable loss of sovereignty and a leap into a federal Europe. Even some politicians previously known for their pro-EU views are worried.

Mr Fogh Rasmussen is worried too. Last week he warned voters that a rejection of the constitution would leave Denmark in a “completely confused situation”. This week, Mogens Lykketoft, leader of the Social Democrats, echoed his fears: “If we say no, we'll end up like Norway, just rubber-stamping EU decisions without having any influence on them.” But Danish voters have a history of rejecting advice. So Mr Fogh Rasmussen will probably plump for separate referendums: a first one on the constitution, a second one—maybe after the next election—on the opt-outs. Among which, the euro.

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Serbia

Cuddling up to the Americans

Aug 21st 2003
From The Economist print edition

Forgetting old quarrels, the Serbians look for new political gains

FOUR years ago, American aircraft were bombing Belgrade, in a mini-war that turned ex-Yugoslavia's province of Kosovo, de facto, into a United Nations protectorate. Yet last month Zoran Zivkovic, prime minister of the country that now calls itself Serbia and Montenegro, was in Washington to offer 1,000 troops for Iraq.

Some dismay at home changed his emphasis: would the UN like troops for Liberia? There is no decision on either offer yet, but what a change from the days of Slobodan Milosevic. Even before the Iraq war, the Serbians told the Americans the locations and plans of Yugoslav-built bunkers there. And soon after Mr Zivkovic's return from Washington, the defence minister, Boris Tadic, announced that 16 generals would be retired, for obstructing military reform. It is suspected that some may also have been implicated in war crimes during the Kosovo crisis, and were a source of unease to American officials.

In business matters too the Serbians are eager to please. This month the American tobacco giant Philip Morris bought a Serbian cigarette factory for *euro*518m ($584m), making it the largest foreign investor in the country. Earlier in the year US Steel bought the ailing Smederevo steel works.

Why all this hospitality to the country's ex-enemies? Not least, to get Kosovo back. Its final status will soon be under negotiation. The Serbians have agreed to talks on technical matters with Kosovo's ethnic Albanian leaders, and they reckon that good relations with the United States would be a help when real issues come up.

Kosovo's ethnic Albanians have enjoyed strong American support since the 1999 war, but that may be on the wane, thanks to recent violence against both UN personnel and the province's 100,000 remaining Serbs: on August 3rd an Indian UN police officer was killed in an ambush, and last week two Serbian teenagers were shot while having a swim. No one is sure who is behind these and other incidents, but the main suspect is the so-called Albanian National Army (ANA), which was added to the UN's list of terrorist groups in April after it blew up a bridge in northern Kosovo. It has already said it carried out one of a recent spate of attacks on security forces in southern Serbia, and whispers abound linking it to Islamist terrorist groups. True or false, they do not advance the ethnic Albanians' cause.

Whether Mr Zivkovic can carry his policy through is another matter. Nebojsa Medojevic, leader of an outfit called Group for Change, says that “he wants to show the people he counts with the Americans, and that that will bring investment, aid and hope on the Kosovo question. But I'm not sure he has the political legitimacy.” Indeed, the government's approval ratings languish around 15%, and the elections, whenever they may come, could well bring the party of the former president Vojislav Kostunica to power. This Democratic Party of Serbia is both more nationalistic and more pro-EU. But for now the unlikely cuddling up to the Americans goes on.

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Spain's politics

The man from Marbella

Aug 21st 2003 | MADRID
From The Economist print edition

Jesús Gil y Gil is a master of scandal and of much else

Reuters

"A SICK cat never dies." The old Spanish saying fits Jesús Gil y Gil, owner of the Atlético football club in Madrid and erstwhile mayor of the wealthy Mediterranean resort town of Marbella. Spaniards are used to his gall, but the latest scandal Mr Gil has been involved in, featuring an uppity stooge and a fiery singer, has made many feel enough is enough.

Mr Gil, who is 70, is a millionaire property developer. Banned last year from public office, he installed one of his lackeys, Julián Muñoz, to run the Marbella town hall. Mr Muñoz took happily to the job. And he had a new lover, a legendary music-hall singer, Isabel Pantoja. She liked her role as mayoress, and was installed in accommodation paid for by the town hall.

Alas, Mr Gil and Mr Muñoz fell out; in Mr Muñoz's version, because he upset the powerful cabal of local property developers, including Mr Gil, by limiting the land they could build on. Others suspect that Mr Gil cannot stomach La Pantoja, known as "the widow of Spain" after her former husband, a matador, was gored to death by a bull. Through his proxies, Mr Gil called for a vote of censure on Mr Muñoz and the two squared up on a late-night television chat show. "You run a gang of robbers," shouted Mr Gil. "You are a liar and cheat," countered Mr Muñoz. "They are both probably right," commented *El Mundo*.

With the aid of old cronies, and three Socialists who suddenly switched sides (and were then expelled by their party), Mr Gil got his votes, and Mr Muñoz lost office. The new mayor, installed on August 14th, is Marisol Yagüe, another crony. One of the ex-Socialists, Isabel Garcia, formerly a fierce critic of Marbella's endemic corruption, is her deputy mayor.

Mr Gil is no stranger to controversy. In 1969 a block of flats he had built near Segovia collapsed, killing 58 people. He was jailed for five years for criminal negligence but pardoned after 18 months. He has been mayor of Marbella three times since 1991 and has owned Atlético since 1987. Politically, he set out to carve a fief along the south coast with candidates from his Independent Liberal Group, acronym GIL. A natural demagogue, he installed a bust of Franco in the town hall, cleaned up the streets, and paraded with his goons while throwing insults at beggars and tramps.

His 16 years at the helm of Atlético have been much like that. Although at one moment the club slipped to the second division, for the first time since 1934, it is now back up. In 1995-96 it won the cup and league double. Mr Gil bathed in champagne and paraded on a white horse to celebrate. And despite, or because of, his public brawls with rival football bosses, calling a French referee a "poof" and saying that his worst mistake had been to treat his players like humans, his stock with fans and Marbella's voters is high.

He is busy these days staving off a web of corruption charges that continue to proliferate. Yet he survives. In 2002 he was in jail on one charge, but was freed on bail pending investigation of a possible misappropriation of public funds. He had been made a political scapegoat, Mr Gil said. Last year he was banned for 28 years from public office for breach of trust and influence-peddling. This year he was sentenced to 3½ years, plus a fine of some $16m, for siphoning off Atlético funds and fraud; in addition he was ordered to surrender his 95% share in the club. He has appealed.

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After the heatwave

The mud flies

Aug 21st 2003
From The Economist print edition

As the death toll rose, so did the political heat, and the recriminations

AFP

Another French nail in the authorities' coffin

AFTER the heatwave, the mudbath. Literally, in parts of southern France, northern Italy and Spain, where heat gave way to floods. Politically too, in several countries, where critics are now pelting the authorities with charges that they were slow to notice the effects of the heat, and ill-prepared to react to them.

This storm hit France early on. The closure of hospital wards and departure of doctors on holiday left the health system unable to cope with the huge influx of elderly and infirm as temperatures soared and—the real killer—stayed up for ten days. As doctors still at work talked of a crisis, the health ministry at first denied it, then admitted one, then, as morgues bulged and undertakers worked overtime, by this week were ready to accept that the heat may have caused 5,000 deaths.

The director of public health resigned, and, with the government by Thursday ready to talk of 10,000 deaths, the minister too, Jean-François Mattei, was at risk. His first reaction had been a television interview showing him, in a T-shirt in the garden of his holiday home in the Var, arguing, unworried, that all was under control. Only days later did he rush back to Paris. His first action was an emergency telephone advice service; coinciding with the first reports of hundreds of deaths, it looked utterly inadequate. Not until the prime minister, Jean-Pierre Raffarin, returned from his holiday in Haute-Savoie, did the government launch an emergency health plan—just as the heatwave ended.

In Italy, extra deaths, notably in the baking north, were noticed by August 10th: in the first half of the month, the Turin total was 35% higher than the average of 2001 and 2002. But the row burst into full flame only over last weekend. All the fault of local government, said the health minister, Girolamo Sirchia. We haven't got the money, they hit back, you've savaged us with cuts; we need a co-ordinated plan for handling the needs of old people, and you must pay. Amid wild demands for an extra *euro*20 billion ($22 billion), the minister was unconvinced: you can reorganise services without spending more, he said.

So? Maybe put up communal taxes, hinted the Democratic Left mayor of Florence, a move now barred by central legislation. No way, said the mayor of Rome, albeit of the same party. Mr Sirchia has proposed that he, the mayors and regional authorities get together soon. If it happens, he can expect a rough

time.

Spain too was counting up the deaths: in the first half of August, an extra 49%, compared with 2002, in Barcelona, in the north-east, for example, and 75% in Seville, far to the south. The central health ministry this week was accused of doing no more than put out health recommendations for people at risk—to which the minister, Ana Pastor, replied (from Mallorca) that, in decentralised Spain, that was all its job was. Opposition parties tried to whip up criticism against it. But the 17 regions that actually run health services seem to have done little more. And—maybe because they vary politically and the mud would fly both ways—there was notably less of it than in Italy, let alone France.

In Portugal, the issue has been the management—or lack of it—of firefighting against blazes that destroyed more than 200,000 hectares of forest and cost 18 lives. Why were only 3,000 firemen mobilised, when there are 40,000 firemen, 10,000 of them full-timers? Why could a country so vulnerable muster only six fire-fighting planes and six helicopters? The centre-right government of José Manuel Durão Barroso is accused of responding slowly to the crisis and not co-ordinating firefighting. Even one of its own parliamentary supporters told of such things in the district that he represents.

But there are deeper issues, such as the concentration on eucalyptus and pine forests, many of whose 40,000 small-scale owners fail to clear underbrush or cut fire breaks, because of the rising cost of labour. These fast-growing and easy-burning forests end as pulp and paper, and the mills are big exporters—at a price, which the Portuguese are now starting to count.

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Turkey's politics

All-powerful but not at ease

Aug 21st 2003 | ANKARA
From The Economist print edition

Erdogan's power rises, his opponents crumble. But he still faces trouble

Get article background

LIFE has never been better for Turkey's prime minister, Tayyip Erdogan. On August 14th his Justice and Development Party (AK) celebrated its second birthday by adding two opposition members to its parliamentary ranks. With 368 of the 550 seats, his party—not Islamist but not far from it—could now amend the constitution without opposition support. No government since Turgut Ozal's single-party one of 1983 has had such a free hand.

The only serious opposition, the secularist Republican People's Party (CHP), is in chaos. When it opposed an amnesty law for Kurdish guerrillas, one Kurdish member defected, and more threaten to do so. The other defector to join AK was also a Kurd, the sole member from the once powerful Motherland Party.

Mr Erdogan's other main rival, Cem Uzan, a tycoon turned politician, is in far worse shape. Two of his clan's electricity firms have been seized for violating regulations; one bank, Imar Bank, has been put into receivership; and regulators imposed new management on another, AdaBank. Last week police were searching for various relatives suspected of siphoning off huge sums from Imar Bank. The government has been eyeing the operating licence of Telsim, the number-two mobile phone firm, after the Uzans transferred their shares in it without due notification. The broadcasting watchdog slapped a month-long ban on five of Mr Uzan's television channels for airing propaganda on his behalf. And in New York a federal court on July 31st ordered the Uzans to pay more than $4 billion in a dispute between Telsim and two foreign creditors.

Mr Uzan and his newborn Young Party last autumn, with 7%, fell short of the 10% of the vote needed to get into parliament. But until recently it looked likely to pose a serious challenge to AK in next April's municipal elections. No longer.

And what of Mr Erdogan's most powerful challengers, the generals? Among a raft of reforms approved by parliament last month, one relegates the National Security Council, until now their formal source of power, to a largely advisory role. Some hawkish generals were retired, for all their kicks and screams, by the chief of the general staff, General Hilmi Ozkok, a liberal by Turkish army standards, and one who does not share many generals' distaste for Mr Erdogan over his Islamist past.

On the economic front, the IMF on August 1st released a long-delayed tranche of its $16 billion credit, and agreed to reschedule repayments of some $11 billion due in 2004 and 2005. Interest rates are now near 40%, against 70% a year ago, easing management of the huge internal debt.

Yet Mr Erdogan must still walk warily. To mend relations with America, hurt by parliamentary refusal in March to let Turkey be used as an invasion base against Iraq, he has offered up to 10,000 troops to help run that country. Most Turks opposed the war, and the offer is deeply unpopular. Anti-American sentiment had already been sharpened by the unceremonious detentions in July of some Turkish special troops in northern Iraq, accused of plotting to murder various Kurdish politicians. And the Americans, fed up with Turkey's attitude before the war, are in no mood to offer Mr Erdogan voter-pleasing rewards now. Nor is there much sign that they are ready, as promised, to disarm and evict 5,000 Turkish Kurd rebels in northern Iraq who have rejected Turkey's amnesty and threaten to resume their armed campaign if the Americans try.

And then there is the European Union and the Cyprus hurdle. Despite his initial support for the United Nations plan to re-unify the island, Mr Erdogan has backed away from it, under pressure from the

generals, who still see Cyprus as a military asset and, whatever their other reverses, still have a strong hold on policy. Yet the EU will not give the Turks a date for accession talks unless they play ball on Cyprus—and it has been further irritated by a recent customs-union plan aimed at easing Turkish-Cypriot exports via Turkey. Another plank of Mr Erdogan's platform is at risk.

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Italian football

Send on the politicians

Aug 21st 2003 | ROME
From The Economist print edition

As lawyers wrangle and accountants fiddle, Berlusconi blows the whistle

Get article background

EPA

Roma v Napoli, in better days

BEING a football fan is a test of nerves, as supporters of Napoli, a once great team, found again last week. Barely a fortnight before the new season of Serie B, the second division of Italian football, was due to kick off on August 30th, a regional court in Catania, in Sicily, ruled that that city's team—which ended last season fourth from bottom in Serie B, and so was due to drop—should not be relegated to Serie C after all. Next day, a court in Reggio Calabria decided that instead the team from Naples should go down.

Soon Atalanta (from Bergamo) and Piacenza, of Serie B, were claiming that they should replace Roma and Ancona in Serie A. This week the government had to bring in a decree to clear the whole mess up.

Courts? The government? Offside, surely. No, because the trouble was not on the field. Catania last season drew a game with Siena. Then it was awarded a win, because one Siena player was under suspension. Then the award was reversed. The points for a win would have saved Catania from relegation. To court it went, to force the footie authorities to agree. Meanwhile Napoli, Roma and Ancona, deep in debt, like many clubs, were found to have produced bogus bank guarantees to avoid being therefore barred, as in theory they could be, from the new season. Victims of deceit, said the football authorities.

Napoli fans were soon threatening a protest march on Rome. Cynics noted that the mayor of Naples is a centrist, while Catania's is from the governing Forza Italia party, nay a doctor to Silvio Berlusconi, the prime minister (who also owns AC Milan, one of Italy's top clubs). And really beady eyes spotted that the national co-ordinator of the National Alliance, one of his coalition allies, is a man from Catania.

In stepped referee Berlusconi. A government decree on August 19th put all sports disputes under one Rome court, and kept Catania, Napoli and two more clubs in Serie B, so adding four teams to that division. We can all go home and leave it to the politicians, said the football authorities angrily. Can they? The Northern League, another—and already unhappy—ally of Mr Berlusconi, opposes the decree, suspecting a plot to favour southern teams.

Behind the chaos lies a potent mixture of money, mismanagement and murky business. All but a few clubs spend far more than they earn and are mired in debt. At the end of the 2001-02 season, clubs in Serie A alone had debts of *euro*3.3 billion ($3 billion then), against *euro*2 billion two years before. Many owe large sums in tax and to the players' pensions fund. Hence the dodgy financial guarantees, which are now under judicial scrutiny.

A law passed earlier this year to rescue Lazio, a Rome team, letting clubs spread their losses over many years' accounts, defies normal accounting principles. Yet most leading clubs, even ones on the stockmarket—Juventus, last season's Serie A champion, is an honourable exception—used its provisions to prepare last year's books. The decree will (probably) let the new season go ahead on the field, not the law courts; but it won't stop dirty play in the boardrooms.

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Holocaust restitution

More light, more justice

Aug 21st 2003 | BERLIN AND LONDON
From The Economist print edition

The Jewish body handling Holocaust claims is to open up. Not before time

AP

Singer, voice to the world

WHO did own the two buildings in ex-communist east Berlin? We do, said a Jewish family in the mid-1990s, its members by then scattered to Britain, Israel and the United States. First nazified, then nationalised by the German Democratic Republic, the "buildings" in Strassburgerstrasse and Georgenkirchstrasse in fact no longer existed: one vanished in the 1939-45 war, the GDR had demolished the other for a road scheme. But they had once been valuable, and with newly unified Germany accepting responsibility for the Nazi past, as the GDR had not, the family hoped for compensation. It got a shock. Such shocks—there have been others like it—are still reverberating in the Jewish world. And this summer their effects were felt.

The shock came from the Claims Conference (CC), officially the Conference on Jewish Material Claims against Germany. Born in 1951, this is the main channel for compensation and it has become a giant: it lists its 2002 revenues as $826m. Of this, $598m came in (and $590m went out) as direct compensation to Holocaust survivors: $222m from the German government, $271m from a foundation set up in 2000 by German companies, and $105m from Swiss banks under a scheme set up in 1999. But the CC has other roles. After German reunification, by agreement with the German government, it could claim "heirless" ex-Jewish properties in the GDR, unless heirs turned up with valid claims for them or compensation for them.

The deadline for individual claims was the end of 1992. The family cited above, like many others, heard of this too late. But the CC had set up a "goodwill fund" for latecomers like it. In went its claim. Problem: there was a further name on the register for its two properties. A straw man, said the family, added in Nazi days in the hope of saving the properties; in 1972, he had given up any claim. The family produced a notarised document to that effect.

In vain: after much argy-bargy, the CC in late 1996 offered it 50% compensation, DM184,187.56 ($122,000), in brisk terms: "Should you not agree... the total amount will be given to Jewish welfare organisations for the benefit of Holocaust victims". Take it or lose it. The family took it.

Arguably, this family was lucky. The CC had at least waived its fee; and some early claimants, with strong cases but unready for a row, faced offers of 40% or even less, says Netty Gross, a Jerusalem journalist who has long studied this issue. That need not be unfair: the costs of researching a cheap property may be the same as for a valuable one. But these days, the CC offers successful claimants a standard 80%, taking 20% for its expenses.

The sums are large. By the end of 2002, the CC had filed 99,000 claims of its own with the German authorities. Over 41,600 were yet to be ruled on; 17,800 were "duplicates" (thanks to changes in street addresses, eg); 24,000 properties were not in fact ex-Jewish; and 7,200 were awarded to original owners or heirs. But 8,278 rulings went in favour of the CC. Over time, it has sold a good deal: in 2002, sales and compensation jointly brought it $101m, though it still got $9m in rents. And the goodwill fund has shared in this: the CC, which in 1998 invited new applications to the fund by the end of that year, says that it has paid $164m to heirs, and set aside $157m for pending applications still to be decided.

So who's complaining? Might-be heirs could be, and others are. For years, Ms Gross, not alone, has

urged the CC to make public its lists of properties and the names of former Jewish owners. This would help people who may have fair claims but not even, 60-plus years and a Holocaust later, be aware of them. So why not do it—on the internet, for example, as with some other categories of Nazi-era assets?

One answer from the CC used to be that this would also help opportunists. Ms Gross thinks the real answer is that it is a cagey body that sees the information, like the properties, as essentially its own to be used for its purposes; not improper ones, but its own. Maybe. But as Julius Berman, the CC chairman points out, it did set up the goodwill fund and go on accepting claims after deadlines had passed. It's fair to deduce that it cannot have been simply playing “what's ours is ours”.

Whatever its old motives, the CC has changed its mind. A London-cum-Jerusalem businessman called Martin Stern, an old campaigner to get European insurance companies to pay out on Holocaust-era policies, has recently stirred the issue up, arguing to officials and others in Britain that the 10,000 unaccompanied Jewish children admitted there in 1938-39—the so-called *Kindertransport* children—knew little of their parents' circumstances, and brought no documents. So they or their heirs, of all people, he argues, need pointers to possible assets in Germany.

The Board of Deputies of British Jews backed him. Britain's Foreign Office asked its German counterpart if a list of properties was available. Answer, no: the Germans, reasonably, did not want to clash with the CC. The British too had no zeal to get into this Jewish quarrel (and did not, says Mr Berman). Yet, with a bit of help from Natan Sharansky, Israel's minister for diaspora affairs, something moved: when the CC board met in July, it agreed at last to publish the old Jewish owners' names, on the net; maybe in mid-autumn, with a six-months deadline for fresh claims.

It still is not keen to publicise that decision; to avoid a premature rush, it says. Nor will it publish the addresses involved; it argues that if you can recognise an address you could have claimed already.

Wider arguments about the CC and its allocation of funds—are all the causes truly worthy?—will not go away. Nor can its current president, and voice to the world, Israel Singer, an American, also chairman of the governing council of the World Jewish Congress, hope to escape personal barbs; no one in that post has or will. But at least more light will be thrown on the CC, as on one dark corner of Europe's history; and maybe a bit more justice will be done.

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The Hutton inquiry

Fatal words

Aug 21st 2003
From The Economist print edition

AFP

The inquiry into David Kelly's death is fascinating if frustrating

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IT MAY not be providing the dramatic and damning answers that some had hoped for, but the Hutton inquiry into the death of David Kelly, an expert on Iraq's illegal weaponry, is offering an enthralling glimpse into the inner workings of government. There are two big questions: whether the government wilfully exaggerated the intelligence about Iraq's weapons of mass destruction (WMD); and whether, when Mr Kelly had complained about this to BBC journalists, officials bullied him to the point of suicide.

The trail of confidential e-mails turned up by the inquiry provides striking evidence of the grim atmosphere inside the prime minister's office in September 2002, as the case for war in Iraq was being made. “Very long way to go, I think. Think we're in a lot of trouble as it stands now,” wrote one prime ministerial adviser, dissatisfied with the draft dossier about Iraq's arsenal.

But in May this year it was Mr Kelly himself who was in the most trouble. A scientist-turned-civil servant who was authorised to brief the media on technical issues, he had plainly strayed way beyond his brief. He seems to have said one thing to the BBC's journalists, and another to his employers after owning up.

However, the most pointed questions at the inquiry this week have been about the government's reaction. It decided first to name him, and then to allow the parliamentary Foreign Affairs Committee to grill him in public. Sir Kevin Tebbit, the top civil servant at the Ministry of Defence, advised against this, “out of consideration” for Mr Kelly. But Sir Kevin was overruled by the defence secretary, Geoff Hoon; further e-mails show that the prime minister himself approved of this step.

The prime minister's director of communications, Alastair Campbell, admitted that the outing of Mr Kelly was mishandled. His anger against the BBC was so intense that he had to be repeatedly calmed down by the prime minister, he told the inquiry, quoting extracts from his diary. But he insisted that, even if the government had acted otherwise, the BBC's source was bound eventually to become known.

Lord Hutton may or may not be convinced by this argument, echoed by all the government's witnesses. But it seems more than likely that any attempt to keep Mr Kelly's name secret would have provoked a media outcry about a cover-up.

Once the Foreign Affairs Committee decided to summon Mr Kelly, he must have known he was in dreadful difficulty. Under public scrutiny, the partial version that he had given of his meeting with the BBC's Andrew Gilligan was increasingly untenable. But, the inquiry learned this week, Mr Gilligan then added a startling new complication, hinting to an MP that Mr Kelly was the anonymous source cited in other BBC reports. That will cast further doubt over the journalist's judgment.

On the evidence so far, the question of how Mr Kelly was treated peters out in civil service procedures. It would be odd if a government did nothing about a civil servant blabbing damagingly to the media. There is no sign yet that improper pressure was applied.

But what about the broader question, of whether Mr Kelly was right to speak out? Though Tony Blair's senior aides worked closely on the dossier's presentation, the content and final wording was controlled by the Joint Intelligence Committee (JIC), an inter-departmental (and thus apolitical) body. That provides a neat receptacle for any blame.

Although at least one senior intelligence officer complained about overstatement (and then about the government's assertion that there was no discontent) the top spooks seem to have swallowed any doubts. If anything, they needed restraining. Mr Campbell told the JIC's chairman, John Scarlett, to tone down his writing: “the drier the better”, he advised. Jonathan Powell, the prime minister's chief of staff, covered himself ably in a letter to Mr Scarlett stressing that when the document was launched, “we will need to make clear... that we do not claim to have evidence that he [Saddam] is an imminent threat.”

These wise words did not hold back Mr Blair, however. In his foreword to the dossier, he appeared to go against his chief of staff's counsel: “I am in no doubt that the threat is serious and current, that he has made progress on WMD, and that he has to be stopped.”

He is now paying the price for that boldness. A *Guardian*/ICM opinion poll published this week showed that only 6% of voters trust the government rather than the BBC to tell the truth. Whatever the inquiry concludes, Mr Blair appears to be losing the battle for public opinion.

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The BBC

Woes of the world

Aug 21st 2003
From The Economist print edition

Changing audiences overseas mean difficult choices for the BBC

Get article background

FANS around the world who revere the BBC's journalistic standards are still digesting the sloppiness and squabbles revealed by the Hutton inquiry. But even without that distraction, the BBC's worldwide radio and television broadcasts are having to change.

On the face of it, the news is good. After years of penny-pinching, there is more money: the government direct grant for radio this year is £200m ($320m), which will rise to £239m in 2005-06. Audiences are rising: the BBC now claims 150m listeners abroad. A third of that, and the fastest-growing part, now comes from local rebroadcasts, typically domestic stations that use BBC programmes to beef up their own coverage. This has been particularly successful in America.

The problem is how to adapt to the changes. Traditional audiences are shrinking fast. Poor people, as soon as they can afford it, watch television. In India, once a BBC stronghold, that trend has halved its audience. In rich countries, old-fashioned crackly short-wave broadcasts appeal only to a small minority.

One logical response would be to concentrate on television. BBC World has competed against channels like CNN, with some success, but unlike its radio cousin it is a commercial operation, with a tight budget at times all too apparent on the screen. At present, it is solely in English, while the vast majority of the BBC's radio broadcasts are in local languages. On the current self-financing basis, BBC World will at best grow slowly. Some in the BBC would like to see it turned into a hybrid-funded service with some money coming from government.

Another idea is to move away from providing a global, centrally broadcast, round-the-clock radio network, and concentrate on supplying content to local rebroadcasters. That would focus time and money on the BBC's greatest international strength: news and current-affairs. It could then drop some of its often weak non-news programmes, which take up half the hours broadcast and a third of the budget.

New technology complicates the picture further. For those mainly rich people with broadband access to the internet, listening to BBC programmes of all kinds is increasingly easy. During the war in Iraq, traffic on the BBC's websites (in 43 languages) doubled. That strengthens the argument for providing a menu of programmes rather than a fixed schedule.

But a second kind of technical change points the other way. A small but growing number of listeners in North America, Africa and South Asia now listen to higher-quality direct broadcasts thanks to digital satellite radio. A new digital short-wave broadcasting technology, DRM, is even more promising. That could revive traditional listening habits—at least among those able to afford the new sets.

Either way, though, the BBC bosses, and their government paymasters, need to balance hanging on to a shrinking mass listenership in poor countries, with developing an elite audience, mainly in rich ones. Trying to do both will be tricky.

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Russians in London

Chelski rules, OK?

Aug 21st 2003
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Need a reputation? Buy it in London

RESPECTABILITY is in short supply in Russia, but there is plenty in Britain. No surprise, therefore, that Russian tycoons love London. For all its superficial stuffiness, the local establishment is in practice famously accommodating to the newly rich and would-be grand. Understandably: the forebears of today's toffs trod the same path themselves not long ago.

One way to the heart of England is to support high culture and schmooze with the nobs (Prince Michael of Kent, a Russian-speaking member of the royal family, is famously good at helping in this). But the latest venture, by Roman Abramovich, a billionaire tycoon-politician, has been at the popular end of national life. Having bought Chelsea, a top but cash-strapped London football club for £140m ($225m) this summer, he promptly splurged £75m on new stars. The result has been a strong start to the season, and fawning coverage in the London press. This Saturday, Mr Abramovich will appear for the first time before the Chelsea faithful at the home ground: a standing ovation is likely.

Mr Abramovich fears that he may, like other plutocrats, fall foul of the powers-that-be in Russia. But it is a fair bet that he could now live permanently in England. By contrast, his former mentor in Moscow, Boris Berezovsky, is having to fight hard to resist Russian attempts to extradite him from Britain on what he calls trumped-up corruption charges.

Many members of the Russian elite have a toehold in British life. They send their children to the top fee-paying schools. Some keep mistresses in London. It is also, says one, by far the best place if you want to launder a really large amount of money. But not all the attractions are so venal. British respect for privacy is prized. Others like the sense of history and tradition so absent at home. One top Moscow banker spends his holidays driving round the English countryside looking at stately homes, mourning his own country's destructive ways.

But the classified advertisements in the *Londonskiy Kurier* [London Courier], the main Russian-language weekly, show a very different world: nanny/housekeepers and construction workers offering to work for long hours, low pay and with no need to bother the authorities about insurance, tax and the like. Where the tycoons favour posh Hampstead, the new proletariat like east London, particularly Stratford.

A third category is upmarket expats: lawyers, computer specialists, bankers and other professionals, recruited in Moscow but now posted around the world by their companies. Like other foreigners, they find London expensive, fun, but sometimes lonely. The other kinds of Russians, whether rich or poor, are something of an embarrassment to them; they fear, rightly, that a whiff of sharp practice will cling to them too. The final, smallest category are the old-established émigrés—an odd mixture of mainly Jewish communist-era dissidents and the descendants of anti-Bolshevik White Russians. The best-integrated into British life, they can be sniffy towards ex-Soviet newcomers.

Now Mr Abramovich has sparked keen interest from compatriots of all kinds. “Chelsea has just got a quarter of a million new supporters” says Natasha Chouvaeva, editor of *Londonskiy Kurier*. “I was never interested in football before.”

Yet football's reputation in Britain is distinctly mixed. Despairing headlines this week warned of resurgent hooliganism in the new soccer season. If he can make Chelsea both popular and peaceable, Mr Abramovich could expect a knighthood.

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Police-lite

Stage army

Aug 21st 2003 | KNOWSLEY, MERSEYSIDE
From The Economist print edition

Auxiliary policing reassures the public. That is half the battle

Get article background

“ALL right there, girls. Have you caught any criminals today, or are you just for show?” The shouted question, from a trader in Kirkby market, is reasonable. What, after all, is one to make of the sudden appearance of uniformed officers in a neighbourhood so unused to the sight that locals take pictures of them? Especially since the officers are not real police, but stand-ins, distinguished by blue hats, startled looks, and unadorned belts.

In the coming year, 1,200 community support officers will join the 1,350 already hired to beef up the arm of the law. A further dose of quasi-policing comes from the 1,500 brightly clothed neighbourhood wardens—employees of local councils and housing associations, who do much the same thing: walk around reassuringly, and thereby, it is hoped, dissuade local youth from indulging their yobbish yearnings. This is to be done without weapons, powers of arrest, or much training.

The schemes meet, at least in part, the strong public demand for bobbies on the beat, at between half and two-thirds the cost of fully trained officers. But the real police, much-criticised of late for their indolent and bureaucratic ways, want to defend their monopoly against the interlopers. The Police Federation, the coppers' union, has opposed both neighbourhood wardens and community support officers. Rod Dalley, the federation's vice-chairman, reckons they look too much like genuine policemen. Last year, the federation managed to stymie proposals to equip the new auxiliaries with handcuffs and CS gas.

There is little sign that villains are fooled. In Knowsley, local toughs are expert at assessing a police officer's rank and experience from the badge. The community support officers seem not to impress them: after several months on the beat, the officers still measure popular responses in terms of the number of eggs and other missiles thrown.

Such difficulties may be partly the result of inexperience. In the nearby Stockbridge Village estate, ten neighbourhood wardens are having a much greater impact, despite their powerlessness. Led by Dave Watkinson, a tough-talking man who has, as he puts it, “done his time” locally (he is on first-name terms with every wino and car thief in the 6,800-strong estate), the yellow-shirted officers have embedded themselves deeply into local networks, with evident effects.

The preferred local crimes are burglaries and “burn-outs”—cars stolen from elsewhere that are driven into the area and set on fire. Since the wardens arrived two years ago, the incidence of both has halved. Unlike Kirkby's community support officers, who are keen to stress their links to the police, Stockbridge's wardens tend to play them down. This is disingenuous: they are privy to the police's weekly crime reports, and even the coppers admit that they supply vast amounts of intelligence. But, as Mr Watkinson puts it, “we wouldn't survive if the local thieves knew how much we were doing.” Christina Grant, who runs a similar scheme in Southwark, London, says the same.

Such are the demands on the police that auxiliaries of both kinds are likely to grow in number, even when they prove ineffective. Their presence helps local and national politicians meet their targets for police strength. They also make forces more diverse: London's new support officers are 35% non-white, compared with 5.7% of the regulars.

Auxiliaries also perform tasks that the police lack time or energy to do, like visiting crime victims and doing tedious anti-terrorism patrols in central London. These make people feel vaguely safer; and, since

the police are increasingly measured by their ability to provide reassurance as well as nailing lawbreakers, that is worth something. As Paul Cummins, the community safety manager for Knowsley, says: “Some officers were suspicious of us at first. But they know we can help with their performance indicators.”

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Tourism

Wacky races

Aug 21st 2003 | GLASGOW
From The Economist print edition

Competitive events in odd sports pull big crowds

IT IS not a tourist draw on the scale of the Edinburgh Festival, but last weekend's World Pipe Band Championship in Glasgow was an international attraction too. Though this year's bagpiping trophy will stay at home, the title has gone overseas in seven out of the last 11 years. The skirl of the pipes echoes far beyond the glens: Canadians, Americans and New Zealanders are big in world piping these days.

The event brought 7,000 pipers and drummers to Glasgow, and the city council reckons that 35,000 spectators turned up, spending about £1.5m in the city. It cost the council just £170,000.

They may seem oddball events to mainstream tourists, but there is no doubt that exotic competitions of all kinds are booming. This summer, for example, a round of the Mountain Bike World Cup was held at Fort William in the Scottish Highlands. The Scottish tourism agency reckons that 15,000 people watched the mud, sweat and gears and that the week put about £1m into the local economy.

Another fairly specialist event with welcome spin-offs was the World Logging Championships held at Lockerbie in south-west Scotland last year. The must-visit event for all those interested in competitive forestry included harvester simulator skills, as well as chainsaw carving, lorry[truck]-loading, horse-logging, axe-throwing and pole-climbing.

Geography and climate are not necessarily obstacles. The Aviemore sled-dog rally held at the Scottish resort every January may get snow, but Colwyn Bay in north Wales, not known as a winter sports resort, attracts thousands of spectators for its annual husky dog team races; the sledges run on wheels.

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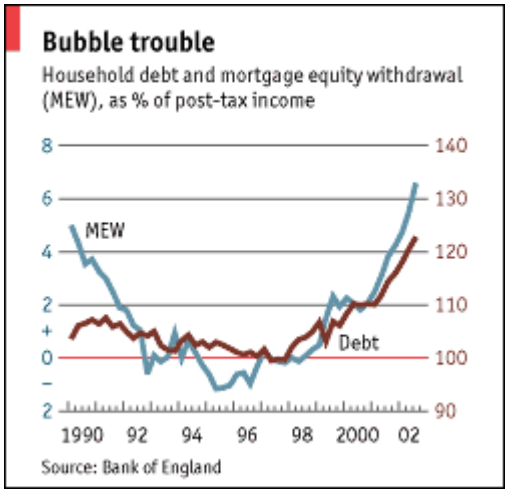
Consumer debt

Borrowing binge

Aug 21st 2003
From The Economist print edition

Household finances are becoming worryingly over-stretched



CHEAP finance, it seems, is addictive. In July, total mortgage advances in Britain jumped to a record £25 billion, almost a fifth higher than a year ago. Lending on property has more than doubled in little more than two years.

That suggests a housing market weakening less than expected. According to the Council of Mortgage Lenders, the number of loans to buy homes rose in July to 116,000, the highest this year. On a similar note, the Royal Institution of Chartered Surveyors reported that the stock of unsold properties fell in July for the first time since November. House prices are still falling in and around London, which has suffered the sharpest setback, but even in the capital prospects are brightening.

Buoyant mortgage lending also fuels consumer spending. Households are continuing to turn some of their housing wealth into cash. Such mortgage-equity withdrawal—borrowing secured on but not invested in housing—has amounted to a hefty 7% of disposable income in recent months. Much of this has occurred through people taking out bigger loans when they remortgage their property. In July, remortgages amounted to almost £11 billion, nearly half of all mortgage lending.

Much of the cash thus released goes into deposit accounts or is saved in other forms. But a lot leaks into wallets too. In the short term, this readiness to borrow more will help to sustain the economic recovery, which stalled in the first quarter of this year as consumers economised. Stronger household spending is needed to offset weak overseas demand, especially in the euro area, where activity remains at a low ebb. The ideal picture would be one in which consumer demand neatly slackens just at the point that exports and investment pick up.

But the longer the borrowing spree continues, the more over-stretched household finances become. Already, total consumer debt has risen to all-time highs in relation to income. As long as jobs are plentiful and interest rates remain low, people can service this debt. But the rising debt burden makes households more vulnerable to a shock such as rising unemployment.

In its August *Inflation Report*, the Bank of England said that household balance sheets had been weakened by the rapid growth in borrowing and the decline in equity markets. Minutes released this week of its meeting earlier this month show the Bank's monetary policy committee worrying about two risks from the rise in consumer debt.

The first was that stronger consumption now might be followed by a longer-than-expected period of slower growth as consumers repaired their balance sheets. The second was that household spending might fall more sharply if there was an adverse shock such as an unanticipated fall in house prices. Speaking in Australia this week, Charles Bean, the Bank's chief economist, highlighted the fact that a third of British households have virtually no liquid assets to draw down if things go wrong.

Beating an orderly retreat is always a tricky military manoeuvre. So with the economy: the Bank's hopes for a disciplined slowdown in the housing market, borrowing and consumer spending will be difficult to achieve. The more that households run up debt, the harder it will be to accomplish an orderly transition to a better balanced economy.

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Traffic

Lucky Ken

Aug 21st 2003
From The Economist print edition

The London road-pricing experiment is confounding the mayor's critics

Get article background

SIX months after the introduction of London's £5-a-day congestion charge, it has worked better than the mayor, Ken Livingstone, or almost anyone else, expected. Traffic delays are down by a third, while average speeds in the charging zone have increased by nearly 40%. With the critics in retreat, few doubt the mayor's re-election in a year's time. William Hill, a bookmaker, offers odds of 3-1 on. Most of the 100,000 drivers who pay the charge daily are satisfied. Nearly three-quarters of Londoners say it is proving effective.

But that success creates problems. The number of drivers entering the central London zone has fallen by 20%. Given the high administrative costs, that means less net revenue from the scheme—barely half the £130m predicted. The scheme's main contractor, Capita, has had to be bailed out with an additional £31m.

Secondly, the subsidies to public transport are proving larger than expected. This week the mayor raised fares sharply. Tube tickets, already among the costliest in the world, will rise by 3.6% and bus fares by 7.4%. Even then, the regime is unsustainable without a big state handout next year. Bus subsidies alone are £500m annually and could rise to £1 billion within four years.

The other big headache is erratic enforcement. Of the 485,000 penalties issued by the first week in July, 225,000 had been paid, 100,000 had been cancelled and 160,000 were outstanding. Only 30 charge evaders have had their cars clamped. The scheme's co-director, Malcolm Murray-Clark, admits that some drivers who enter the zone every day without paying are receiving a penalty notice only once a week. That should not be surprising: Britain is startlingly bad at collecting fines and tracking down minor wrongdoers.

Although some retailers are complaining, London businesses are generally supportive. A study of 504 companies by London First, a pressure group, found that nearly half believed that the charge was working well, and nearly three-quarters said that it had not harmed profits; only 9% said that it was hurting them. To the fury of his enemies, Mr Livingstone appears to have the two most important qualities for a politician—courage and luck.

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Bagehot

Not very guilty

Aug 21st 2003
From The Economist print edition

The Hutton inquiry will exonerate the government, but in a damaging way

Get article background

LORD HUTTON'S investigation into the circumstances surrounding the apparent suicide of David Kelly is only in its second week, but it looks increasingly clear that the person most responsible for the tragedy was the hapless Mr Kelly himself.

Mr Kelly's expertise gave authority to his doubts over the claims made in the government's September 2002 dossier about Iraq's illegal arsenal. The BBC may have thought it had a scoop at the time, but the inquiry has shown Mr Kelly to have been too far from the action to know anything definitive about how the dossier was put together. He could not know for certain that Downing Street had “sexed up” the dossier, far less whether Alastair Campbell, the government's powerful communications chief, had personally inserted the claim that Iraq's weapons of mass destruction could be ready in just 45 minutes.

The evidence so far before the Hutton inquiry suggests that the first charge was broadly unfair and the second pure speculation. Repeated—perhaps with some embellishment—by the BBC's Andrew Gilligan, these charges sent the government into a paroxysm of rage. Only belatedly did Mr Kelly understand the scale of the furore his briefing to Mr Gilligan had created. And like many people who find themselves in a hole, he went on digging, misleading both his employers and two parliamentary committees about what he had really said.

When he realised that his deceptions were bound to be exposed, it all seems to have become too much for him. Mr Kelly was a casualty both of his naivety, and the unedifying war between the government and the BBC. Barring sensational new evidence, it is hard to see how the inquiry can hold anyone else to blame. Like the rest of us, it can only conjecture at the state of Mr Kelly's mind as he walked towards the field where his life ended.

As for any wider conclusions, while the inquiry has provided fascinating glimpses of the heart of government working under pressure, such information has tended to confirm what many already suspected. In particular, although the specific accusations made by Mr Gilligan do not stand up, the more general, but less provable, charge that Tony Blair exaggerated the threat from Iraq still stands.

Yet even this story is not as simple as the prime minister's critics maintain. Mr Blair had a bee in his bonnet about Iraq's weaponry long before his first meeting with George Bush, itself several months before September 11th 2001. And who put it there if not the spymasters of MI6 who the government is now accused of bullying? As the pressure on Saddam Hussein increased, Mr Blair naturally wanted to share with a wider audience some of the information that had so impressed him.

While there may have been initial misgivings about putting any intelligence material into the public domain, once that bridge had been crossed, the intelligence services were on their mettle to come up with the goods. Their problem was that the scariest information they had was about Iraqi plans, rather than the hard evidence of actual capability that the government needed to bolster the case for war.

All the same, the inquiry has shown that John Scarlett, the chairman of the Joint Intelligence Committee, stood squarely behind the dossier and that the ex-journalists in Mr Campbell's team, far from wanting to “sex up” the dossier, wanted to tone down the lurid journalese the spooks had resorted to.

As the prime minister's chief of staff, Jonathan Powell, accurately predicted, the dossier would probably convince only those who were already convinced. Some have taken that as evidence of the pressure that

Downing Street was exerting to make the dossier more dramatic. It was nothing of the sort. It was a timely warning to the prime minister not to describe the threat from Iraq as “imminent”. In the end, Mr Blair decided he could get away with the adjectives “real” and “current”. As he must have known, that was stretching it.

All of which goes some way to explaining the intensity of the government's indignation over Mr Gilligan's report. People who are accused of misdeeds that they have just stopped short of are much angrier than if the thought had never crossed their minds in the first place. The government tacitly concedes, with the benefit of hindsight, that it may have over-egged the case for war just a little. But, heaven forbid, absolutely not in the crude, cynical way alleged by Mr Gilligan.

Torched

Two other things have so far emerged from the inquiry. The first is the extent of Mr Blair's involvement with everything that touched upon the fight with the BBC. This was not just Mr Campbell's war, it was every bit as much Mr Blair's. Once Mr Kelly had identified himself as Mr Gilligan's probable source, the key decisions about how he should be handled were taken by the prime minister. Mr Blair was right to conclude that it would be impossible, as well as politically dangerous, to try to keep Mr Kelly's name a secret. But there was still something distasteful about the manner of his “outing” that reflects badly on the prime minister.

Secondly, the distinction between political advisers and career civil servants, at least in Downing Street, appears to have broken down almost entirely. The former are wholly embedded in the government machine and the latter have learned to think and respond to events in an increasingly politicised way. It is a long way beyond Lord Hutton's remit, but the peek he has given us through the walls of Number 10 can only add to the demands for a new civil service act to set codes of ethics and conduct.

That's the trouble with judicial inquiries. They may be set up to shed light on one thing, but you never know what else will be illuminated. Even if Lord Hutton eventually exonerates all concerned, the longer his torch shines on the nooks and crevices of Mr Blair's government the more it will damage him.

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Business and terrorism

Homeland insecurities

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AFP

Although it was not the work of terrorists, the great blackout is reminding American firms that their defences remain haphazard and inadequate

WERE the daily assaults in Iraq not enough to alert American firms to the ever-present threat of terrorist attacks, the electricity blackout that hit New York, Michigan, Ohio, New Jersey, Connecticut and chunks of Canada on August 14th should have done so. Thankfully, terrorism was not the trigger for the blackout, but even so it underscored the vulnerability of American firms to attacks on “soft” economic targets, such as power stations and electricity lines, that can create broader mayhem. As airlines cancelled over 1,000 flights, Detroit's car factories ground to a halt and retailers shut shops, the cost of the blackout reached billions of dollars. Yet, as the second anniversary of the terrorist attacks of September 11th approaches, American firms continue to distinguish themselves by how little they have done to buttress their defences.

During the weeks after the World Trade Centre attacks, the rare signs of life in the stockmarket came from firms that had something to do with security. If they made metal detectors or anthrax medication or employee identification tags—to say nothing of missiles and jet aircraft—their shares went up.

The rally did not last. For six to nine months after the attack, recalls Jules Kroll, executive chairman of Kroll Inc, which provides security services around the world, firms spared no effort to generate detailed assessments of facilities and disaster policies. Then implementation was delayed, and delayed again. “The expenditures never caught up with the threat,” says Mr Kroll. Lacking a “second event”, it became ever harder for bosses to justify spending that did not generate extra sales, especially given the lacklustre economy.

A survey of 331 big companies in July by the Conference Board, an industry group, found that spending on security had increased by just 4%—and that most of this took the form of higher insurance premiums. Although most firms reported that their spending on security was insufficient, only one-fifth said that spending would continue to rise. Last year, President Bush's Council of Economic Advisers predicted that total spending on security by business would double from its pre-September 11th total of $55 billion a year—then half of America's total non-military spending on security.

The fog of risk

The blackout may have made it a bit easier for managers in what are now called the “risk departments” of big firms to argue for more resources that, if well spent, produce no visible result. But big obstacles remain, not least the huge uncertainties surrounding the many different risks. As events in Iraq have begun to show, imaginative terrorists can hit any number of hard-to-protect targets, from oil pipelines to water and electricity infrastructure.

The massive uncertainty attached to all these risks has triggered random and haphazard responses from American businesses. Large multinationals with operations in South-East Asia and the Middle East have strengthened defences, says Mr Kroll: their commitment was undoubtedly reinforced by the recent bombing of a Marriott Hotel in Jakarta. Some (but not all) utilities have “hardened” their perimeters, restricting access. So, curiously enough, have Hollywood studios, fearing their vulnerability as disseminators of “decadent” western culture. The New York Stock Exchange (pictured above), another symbolic target, is now a fortress in lower Manhattan, ringed by police barricades.

On the other hand, the chemicals industry, for instance, appears to have done relatively little to strengthen its defences, despite the obvious risks its plants pose. A study in March by the General Accounting Office found 123 plants in America which, if damaged, could expose more than 1m people to toxic clouds of gas.

A second result of this uncertainty may be that firms are putting too many resources into protecting themselves against known, realised risks (anthrax spores through the mail, knives on aeroplanes) and too few against the many more unrealised ones. Just as a bioterror scare following the anthrax attacks of 2001 triggered panic buying of antibiotics, duct tape and plastic sheets, so airline passengers now enjoy good protection against terrorists armed with boxcutters. But not all baggage is screened yet, and civilian planes remain as vulnerable as ever to a terrorist armed with a surface-to-air missile.

Moreover, many firms are reluctant to incur significant costs without not merely explicit guidance from the government on what to spend money on, but also public finance to pay for it. Yet as federal and state budget deficits widen, it seems less likely that the taxpayer will stump up to make private firms more secure. If anything, government is becoming keener to shift costs on to the private sector. And firms have no choice but to rely to a large extent on public anti-terrorist defences and emergency services—which, says a recent report by the Council on Foreign Relations, are “dangerously ill-prepared to handle a catastrophic terrorist attack”.

There has been progress in some industries, shipping being a notable example—perhaps because it was easy to imagine ways in which terrorists might exploit the industry. More customs officials are now being based overseas and are given manifests for cargo 24 hours before a ship departs for America, rather than just before it arrives, allowing suspect shipments to be inspected while still on the dock. New scanners are being added at big ports to scan containers. Transponders are being fitted to ships, allowing their arrival into a country to be tracked much like planes by air-traffic controllers.

But a political fight is brewing over who will pay for extra security for the chemicals industry. Both the Office of Homeland Security and the Environmental Protection Agency cite concerns over its state of preparedness, and say they have not been convinced by the industry's voluntary measures. But they have yet to offer to shower the industry with the cash to pay for compulsory security measures.

The reluctance of business to act has been even more striking when it comes to proactively helping government to fight the war against terror, as opposed to defending firms against it. Financial-services companies have dragged their feet, complaining about the cost of satisfying new regulatory requirements intended to choke off money laundering and terrorism finance. Implementing these could cost some banks (especially those with large offshore operations) up to 20% of annual profits, says John Bourbon of Kycos, a firm created to outsource such work.

And drug firms remain highly sceptical that research into bioterrorism countermeasures will ever pay off—which explains why they are not doing much of it. For all the ballyhoo about President Bush's “BioShield” programme, which is wending its way through Congress, it seems unlikely to change the drugmakers' minds. The proposed carrot of $560m a year for the next ten years to persuade drug firms to develop the 50-100 bioterrorism countermeasures that experts say America needs is peanuts compared with the billions of dollars that Big Pharma spends annually on research and development which, even in a good year, yields just a handful of new products.

Nor does BioShield provide patent or pricing protection against emergency government action. During the anthrax scare, the government threatened to invalidate the patent of Cipro until its maker, Bayer, agreed to sell it at a 75% discount. Drug firms fear that this has set an unwelcome precedent. If the government wants private firms to help it fight terror, it must make it worth their while. It has yet to do so.

As for firms taking steps to protect themselves, there are limits to what makes sense. Putting in place adequate security against every conceivable nightmare scenario would be so expensive as to render many businesses unable to operate. Yet corporate America is clearly erring on the side of underinvesting in its own security. With luck it will not require a “second event” to force American companies to get their terrorist defences into shape.

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Japanese business

Ripples of change

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Ripplewood's telecoms deal shows how foreigners can change Japan

IT IS, both literally and figuratively, a big deal. The ¥260 billion ($2.2 billion) leveraged-buyout (LBO) of Japan Telecom's fixed-line business by Ripplewood Holdings, announced on August 21st, is the biggest purchase yet by a private-equity fund in Japan. Such funds have been making inroads in Japan over the past few years and Ripplewood, an American firm, has been the keenest buyer of Japanese businesses. But the nature of this deal differs sharply from the LBOs that made headlines in America during the 1980s. This LBO shows that, far from being a barbarian banging threateningly on Japan's gates, Ripplewood is already inside them—and increasingly welcome to roam about.

Reuters

Ripplewood's Tim Collins, a foreigner making waves

That Japan Telecom is already owned by another foreign investor, Britain's Vodafone, has no doubt helped to muffle nationalist complaints about the deal. It would be a mistake, however, to assume that no local interests will be threatened by the transaction. If it succeeds with its business plan, Ripplewood will turn Japan's third-biggest fixed-line operator into a tougher competitor to NTT, the former state telecoms monopoly, which still packs a political punch. Yet since Ripplewood plans to achieve this by finding new revenue sources and building up the business—Vodafone, which will keep Japan Telecom's mobile business, has already made most of the potential fixed-line cost savings—it would be hard for local critics of the deal to make nasty labels stick.

Moreover, despite being skewered in the local press after its first few acquisitions, Ripplewood seems to be winning the support of important decision-makers in Japan. The financing of this week's deal is a good sign. Japan's four biggest banks are joining half a dozen foreign institutions to provide most of the loans. High fees are not their only reason to be involved. Ripplewood is one of the few outfits in Japan that has shown a knack for deploying capital wisely. More importantly, this being Japan, it has also made itself a socially acceptable business partner by showing that it is more interested in building businesses up than in tearing them apart to sell piecemeal.

Ripplewood took some heat as one of the buyers of a troubled nationalised bank in 2000 (since renamed Shinsei Bank), and proceeded to get tough on unprofitable borrowers. But many of its successes came from adding to the Japanese businesses it bought. After acquiring Denon, which makes high-end audio electronics, it expanded the business dramatically, first merging it with Marantz, another firm owned by Philips, a big Dutch firm, then adding several foreign consumer-electronics firms to the newly formed

D&M stable. It took a similar tack after buying Niles Parts, which makes car switches and sensors, acquiring a low-end American switchmaker to help expand the business.

Although it has often had to cut labour costs, Ripplewood has also tapped its Japanese businesses' labour groups for ideas about better growth strategies. Tim Collins, Ripplewood's chief executive, praises the labour groups he has worked with as “having a more enlightened sense of self-interest than most managers, anywhere in the world”. If it avoids big labour showdowns, Ripplewood can expect a growing number of Japanese executives—a socially cautious breed—to feel relaxed about selling their businesses to it. If so, this week's big deal will not be the last.

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Mobile telephony in central Europe

Cannibal sector

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A downside of a mobile-phone boom

MOBILE telephony is taking central Europe by storm. Subscription growth exceeds the wildest expectations of the dozen or so cellular-phone operators that won their coveted licences in the mid-1990s. The Czech market has developed fastest, with the number of subscribers per 100 people—the main gauge of telecoms development, known as penetration—approaching 90%. Hungary has experienced rapid growth too, with a penetration rate of over 70%. Even in Poland, the poorest, biggest and most rural central European country, nearly 40% of the population own a mobile.

Since they were introduced before many houses in the region had fixed-line telephones, and they were brought to the mass market through popular pre-paid cards, mobile phones are driving overall growth in telecoms services. This was confirmed by the first-half results of Telekomunikacja Polska (TPSA), the Polish national carrier, released last week. Revenues from its mobile-phone unit rose by 48%, whereas profits from its fixed-line business, which still accounts for 70% of its profits, fell by 5.6%. This sparked fears among analysts that TPSA was falling prey to “mobile cannibalisation”: the erosion of the revenues of fixed-line operators due to the migration of voice traffic from wired to wireless. Cesky Telecom, the dominant Czech operator, has already been nibbled at. Its fixed-line subscriptions fell by 5% in the past two years, says its chief financial officer, Juraj Sedivy, largely due to the growth of mobile-phone operators.

Sharp cuts in mobile-phone charges in the Czech Republic and Hungary have narrowed the gap between fixed-line and mobile tariffs, encouraging price-sensitive consumers to buy cheap pre-paid mobiles. In an effort to prop up their fixed-line subscriber bases, incumbents (like their counterparts in western Europe) are offering value-added services that are not widely available via mobiles, such as high-speed internet access. Yet, unlike in the west, the market for broadband in central Europe is tiny because of a dearth of PCs. “The incumbents are caught between a rock and a hard place,” says Stephen Pettyfer of Merrill Lynch.

The best cushion against the wireless onslaught is for a fixed-line carrier to own a mobile-phone operator, in order to recoup some of their lost fixed-line revenue. This is why Cesky Telecom recently bought out minority investors in Eurotel, its mobile-phone unit. Matav, the Hungarian fixed-line incumbent, owns 100% of Westel, the country's leading wireless operator, and has an additional hedge through its majority stake in MakTel, Macedonia's telecoms group. The firm now at most risk of mobile cannibalisation is TPSA, even though it owns 66% of Centertel, Poland's second-largest cellular operator. Profits from Centertel are not great. And, although mobile telephony seems certain to grow sharply from today's penetration levels, reducing TPSA's fixed-line revenues, a price war also seems likely, which will limit Centertel's profit growth.

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Outsourcing to India

Growing pains

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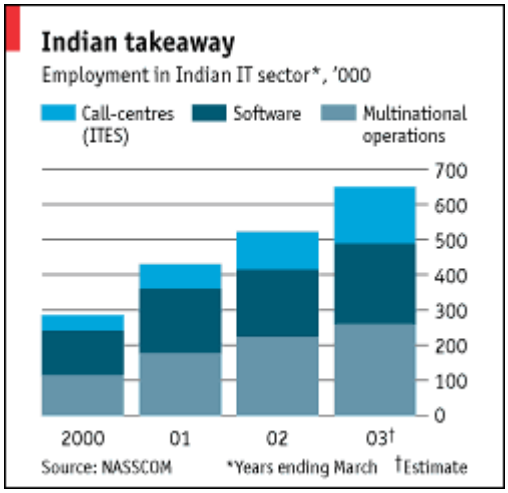
At both high and low ends of the industry, the problems of success

THE boom in “business process outsourcing” (BPO) to India replicates the explosion a few years ago of the country's software industry. Indeed, with even run-of-the-mill call-centres now being labelled an “information-technology-enabled service” (ITES), it is part of the same phenomenon. Many of the same firms are involved, and face again the challenges of coping with spectacular growth.

One problem is how to deal with resentment in the countries doing the “outsourcing”. Shifting call-centres to cheap-labour countries such as India seems to touch a particularly raw nerve. This week a parliamentary committee in Britain said it would investigate the phenomenon. In five American states, politicians have proposed legislation that would constrain state governments from buying call-centre services from abroad, or would at least compel operators to confess their location.

Since governments make up only a tiny proportion of the market, and since most of these proposals are unlikely to become law, this does not represent a huge threat. A more immediate concern is the increased difficulty that IT firms are experiencing this year in securing timely visas for Indian professionals to work in Europe and America. Firms such as Tata Consultancy Services (TCS), India's biggest IT-service provider, which has about 5,000 people in America, report increased delays in securing visas, and a higher proportion of refusals. In America, some of this can be blamed on teething problems at the new Department of Homeland Security. But there are also worries that a newly protectionist climate is making those processing visas more cautious. Similarly, a cap on H1B visas, used by many IT professionals and others to work in America, is unlikely to remain at its current level of 195,000. If, as seems likely, no action is taken, the cap will fall back to 65,000 next year.

Vivek Paul, president of Wipro Technologies, a big Indian software and outsourcing firm, says that every one of the millions of workers in America's IT industry who has lost his job since the bursting of the dotcom bubble probably thinks an Indian has taken it. It is true that hundreds of thousands of jobs have been created in India, but the fastest growth is in call-centres, not software (see chart).



This growth, however, is also the cause of the biggest headache for BPO firms: the high rate of attrition among their staff. Gartner, a consultancy, believes this has reached around 40% a year in call-centres. Despite many tales in the Indian press of burned-out youngsters quitting a life of nocturnal angst, most of the churning comes from job-hopping. There have been plenty of opportunities. An estimated 300-400 “third-party” call-centres have been set up in the past three years, and although many will fold, some are thriving. There has also been a big expansion in operations run by multinationals, especially big financial firms such as GE Capital, HSBC, American Express, Citigroup and Standard Chartered.

Firms have had the galling experience of hiring college graduates, training them and ironing out the wrinkles in their English accents, only to see them move on for a few rupees more. The IT firms know how they feel. During the bubble years, even the prestigious TCS suffered an attrition rate of 15-17%. TCS's Atul Takle, however, says that it has now fallen to below 1%.

Dress-down Friday

Similarly, the big pay rises that were a feature of the IT boom are a thing of the past. Now most salaries are going up only slightly, if at all. The extraordinary 30%-plus operating margins that such firms used regularly to pull in are also, says Mr Takle sadly, “history”. Prices are under pressure, as are some contractual terms. The trend, says Partha Iyengar of Gartner, is towards fixed prices and away from open-ended cost-plus billing. The stockmarket has noticed the industry's less hectic pace: a strong recent rally on the Mumbai exchange has seen old-economy shares outperform the IT stars.

But these are all symptoms of a maturing industry now competing for market share against the global giants of IT consultancy on quality rather than just price. The challenge facing the rest of the outsourcing industry is to reach a similar plateau. Best-placed are those firms that have already moved upmarket: away from call-centres and towards the outsourcing of more sophisticated business processes.

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Selling books in China

China's Amazon

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Why read the little red book when you can buy "Straight from the Gut"?

Reuters

A little-read book?

BOOKS changed Peggy Yu's life. Not great literature, but a dull guide to scholarships in America enabled the co-founder of Dangdang.com, China's biggest online bookseller, to escape a career at one of China's moribund state-owned companies. Instead, as a Wall Street consultant in the mid-1990s, she observed the spectacular rise of Amazon.com and fulfilled her dream to set up a similar venture back home. Unlike many of her peers, she is still in business, one of a growing breed of private entrepreneurs who are driving China's economy.

Fittingly, Dangdang is also educating Ms Yu's fellow citizens, whose voracious appetite for self-improvement is driving demand for Chinese editions of western books. "The sheer percentage of Chinese who want to get ahead is much higher than in an established country like America", she says, noting Dangdang's best-selling title, "Seven Habits of Highly Effective People," and the popularity of Jack Welch's autobiography, "Straight from the Gut". "When Chinese want to build better companies they look to the West."

Despite an 86% literacy rate (not far short of America's 99%) and five times America's population, China has only 77,000 or so bookstores, with sales in 2002 sales of 43 billion yuan ($5.2 billion), compared with maybe $40 billion a year in America. Most Chinese bookshops are dim, cheerless places. Over 7,000 are part of the state-owned Xinhua news agency—with a limited range of titles and few foreign works. In rural or remote parts of the country there are often no stores at all.

Armed with an MBA and her husband Li Guoqing, boss of Science and Culture Book Information Co, a successful publishing company in its own right, Ms Yu decided to give online bookselling a try. In 1997, aged 32, she moved back to Beijing from New York, joining a steady trickle of returnees (the Chinese call them *hai gui* or sea-turtles): young, western-educated professionals keen to apply their new skills in their own country, and to get rich.

Like the Japanese who fanned out across the world after the 19th-century Meiji Restoration, this modern generation of Chinese entrepreneurs is unashamedly copying ideas and business models wherever they can find them. Ms Yu monitors Amazon for new ideas, which she then pinches—most recently, multiple delivery addresses and customer wish-lists—and encourages her 140 employees to order from the American firm's website to get hints for customising her own. Wal-Mart, for its attention to costs, and

UPS, for its sophisticated logistics, are other role models.

Finding a promising business model was but the first step. Dangdang's husband-and-wife team soon realised, for example, that one of Amazon's key assets was a huge, searchable database of titles. But whereas the Americans licensed this from book wholesalers, China did not have a comparable nationwide database. So Ms Yu and Mr Li took more than two years to build their own, which today has 210,000 titles—compared with the 15,000 available in a typical Chinese bookstore.

The internet was also slower to take off in China. Online users grew from a few hundred thousand in 1996, when they had their idea, to 3m in November 1999, when Dangdang—something of an onomatopoeia, representing the sound of a cash register opening and closing, but also a derivation of the Chinese adjective for worthy—went live.

The biggest obstacle to buying books online in China is not price, as in America, but a lack of availability and trust. Just 6m of China's 50m or so internet users have shopped online (most use the web only for e-mail and news). China had no pre-existing mail-order industry, so customers were not accustomed to paying for delivery, let alone before receiving their goods. Distribution and payment remain huge challenges. Given the underdeveloped credit-card market, only 10-15% of Ms Yu's customers use them. Another fifth send money orders via the post office and receive their order by return mail. Two-thirds of the business is cash-on-delivery, concentrated in 12 large cities where the books are distributed by freelance couriers. “Bicycle boys are the last leg of e-business in China”, she says, with some irony.

While Dangdang claims nationwide distribution, it actually owns only one warehouse in Beijing that distributes just 15% of its titles. Its main bricks-and-mortar rival, Xinhua, distributes the other 85% on Dangdang's behalf and grants its online rival space in its storage depots in Shanghai and (soon) in Guangdong province. Whether or not this reflects Mr Li's *guanxi* (connections) from his previous job, it has helped to keep capital spending low and ensured Dangdang's survival. Although the group missed its window for a flotation in 2000, it has outlasted several competitors that went public but ran out of funds. And it can still count on foreign shareholders, including Boston-based IDG group and Japan's Softbank.

The firm now claims 800,000 unique visitors and takes up to 4,000 orders a day, more than half these days for DVDs and CDs. Sales, which reached a modest 35m yuan in 2002, are doubling annually according to Ms Yu, who says that with gross margins of 25%, close to Amazon's 28%, Dangdang will break even this year.

With less than 0.1% of the Chinese book market, Dangdang's sales could soar fast if it became easier for Chinese to buy securely online. One option would be an online billing system such as PayPal, which America's eBay bought recently. A second would be payment via mobile phone—an idea being tested in Japan, but which might neatly bypass the creaking, non-electronically-integrated banking system in China. With more than 220m mobile-phone users in China, “my dream is for mobile phones to work like credit cards,” says Ms Yu, who also aspires to tap into the 70m strong Chinese diaspora throughout Asia and the West.

Meanwhile, the gradual deregulation of China's book market raises hopes of a strategic alliance or outright sale. Domestic chains such as the 500-store Xi-Shu franchise are taking market share from state-owned Xinhua, while foreign publishers such as Pearson (part-owner of *The Economist*) and Bertelsmann's Random House are looking for local distribution channels. The German group already runs a book club in China and its Bol.com subsidiary is number three online after Dangdang and Joyo.com. More significantly, Ms Yu says she has long believed that Amazon itself will one day enter the Chinese market. What could be more fitting than to do so by buying its sincerest flatterer?

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Economist.com BUSINESS
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Custom publishing

Voguish

Aug 21st 2003
From The Economist print edition

At least one part of the publishing industry is booming

DESIGNING customer magazines for supermarkets, airlines, retailers and the like has always been looked down on in the publishing world. Often, the magazines are little more than product catalogues embellished with puff articles. But custom, or contract, publishing is shedding its lowly reputation, mainly because there is so much demand for it. The newest examples of the trend are expected to be three of the world's poshest brands—Armani, a clothes designer, Bulgari, a jeweller, and Moët Hennessy, a drinks firm—which all have plans to launch their own magazines. Sue Douglas, head of contract publishing at Condé Nast in London, says she is talking to many other luxury brands about new magazines.

Armani, Bulgari and Moët Hennessy have all gone to London to find magazine designers—the city is considered the capital of custom publishing. In America, the industry is worth about $1.5 billion in terms of revenue, and in Germany *euro*2.9 billion ($3.2 billion), compared with just £450m ($720m) in Britain. But London's publishers lead the world for quality of editorial content and for innovation.

With advertising spending depressed in much of the publishing industry, custom magazines are a bright spot, with revenues growing by an estimated 8% in Britain and up to 15% in America. After being sniffy for years, even glamorous publishers, such as Condé Nast, which publishes *Vogue* and *Vanity Fair*, compete hard with specialist firms. Time Inc's custom-publishing arm has likewise enjoyed strong growth, supplying titles for the likes of GlaxoSmithKline, Ford, American Express and the New York Stock Exchange.

Luxury brands are desperate to distance their offerings from supermarket magazines and the like. Their idea is to produce something that people might actually pay for, not just to post to clients free. Bulgari is said to plan to sell copies on news-stands; so, too, Moët Hennessy. Supposedly, the Bulgari offering will contain proper journalism, daring photographs and make no blatant attempts to sell jewellery. Armani's magazine will have a movie theme. Moët Hennessy's magazine will focus on vintage cars, clothes and jewellery—as well as vintage champagne.

Although Bulgari denies any impending launch, it has commissioned designs from Condé Nast, the National Magazine Company (part of Hearst) and Redwood, a London-based contract publisher. It reckons that it would cost up to $450,000 for two issues a year, with a circulation of 100,000. Invited adverts from other firms might bring in another $70,000 or so. For now, Bulgari does not envisage lowering its advertising spend in other magazines to reflect the new investment. In the long run, though, publishers such as Condé Nast and the National Magazine Company will have to weigh the threat posed by custom magazines to the ad revenues of their own titles. But an in-house custom-publishing division can work as a hedge.

The main risk for luxury brands, says Ian Sewell, commercial director of Redwood, is that their magazines will prove to be vanity publications that look good but do not drive product sales. The data show that people like custom magazines, but there is not much hard evidence to prove that sales actually increase as a result. Still, there are encouraging signs. The British government, which has just commissioned Redwood to publish two new magazines, sent one called *Army* to over 15,000 young people who had made an initial response to recruitment advertising but had not followed it up. After getting the magazine, 13% of them joined the army. Of even more comfort to luxury brands, Patek Philippe found that half the people who bought its new Twenty-4 watch recently cited the glossy magazine it launched in 1996 as their only source of information. For those on the right mailing lists, plenty more for the coffee table.

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Face value

Food, drugs and economics

Aug 21st 2003
From The Economist print edition

AP

Will Mark McClellan's dose of economics heal the Food and Drug Administration?

THIS is not the best of times to be a regulator in America. The public is angry about what firms are up to, particularly in regulated industries. Some of this anger has been directed at the regulators. Harvey Pitt, head of the Securities and Exchange Commission, fell on his sword for not making Wall Street honest. Michael Powell's position remains precarious at the Federal Communications Commission (FCC). After the blackout, the Federal Energy Regulatory Commission is feeling the heat, if not seeing the light. Yet, almost a year into a job so controversial that it took nearly two years to fill, one regulator is still getting a good reception from all sides of the industries he oversees: Mark McClellan, head of the Food and Drug Administration (FDA).

Quite why is not immediately obvious. Like the FCC's Mr Powell, son of the secretary of state, Colin Powell, Dr McClellan—a doctor, like many of his predecessors—has impeccable Republican credentials that might earn him powerful enemies in America's increasingly partisan politics. His brother is George Bush's spokesman; his mother, a Texas politician who worked with Mr Bush when he ran the state. Dr McClellan has served on Mr Bush's Council of Economic Advisers, with special responsibility for health-care policy—an area that has not thus far been a notable source of popularity for the administration.

On the other hand, Dr McClellan is not noticeably partisan. He served in Bill Clinton's Treasury. An open-minded, likeable 40-year-old, he does not come across as an overtly political animal. He has no previous links to the loathed industry in his care: pharmaceuticals. Perhaps the most intriguing aspect of his appointment is that, beside being a medical man, he is also a doctor of economics. What exactly having an economist in charge will mean for the FDA has become clearer this week, with the publication of Dr McClellan's new “strategic plan” for the agency. Whether his reputation will remain as good as it now is once this blueprint is fully implemented is less certain.

The big economic idea in Dr McClellan's manifesto is what he calls “efficient risk management”. Though he does not put it quite so bluntly, this boils down to the notion that, given its inadequate budget, the FDA cannot do all that it is charged with doing, so it must focus on doing those things where it can have the greatest impact, and also do them more efficiently than in the past. If the dismal science is essentially about how to use scarce resources efficiently, this is indeed economics in action.

Perhaps the clearest example of this approach is how the FDA aims to deal with its new post-September 11th responsibility for the security of food supply, and in particular of imports. Rather than check every

shipment at the border—hugely expensive—it plans to develop a detailed database to provide a profile of imports, that will allow it to target its inspections and to work more closely in co-operation with governments of countries of origin.

A second challenge is to increase the efficiency of the drug-approval process, and so lower development costs. America is the world's most innovative drugs market, but its pace of new drug-approvals has slowed. Last year, the FDA allowed seven high priority new drugs on to the market, after an average review time of 14 months, less than half as many and taking more than two-thirds longer to approve as in 1996. In large part, this is due to factors beyond the FDA's control, not least the failure of drugmakers to turn bright ideas into products. But Dr McClellan sees inefficiencies in the approval process that he wants to cure.

Some of his medicine is organisational. The FDA has already simplified its drug-reviewing machinery by shifting most of its biotech drug reviews into its main reviewing centre, hoping to gain economies of scale. It is trying to make better use of expert resources outside its walls—for instance, by working more closely with the National Cancer Institute to help improve its drug-reviewing processes. It also plans to talk to drug companies earlier in the development process to identify what sort of tests they should be doing, and also to inform them of potential FDA objections sooner. His plans also reflect the economist's love for good statistical method. Traditionally, drug tests often require firm evidence that patients, say, live or die—necessarily quite a lengthy process. Yet there are often “surrogate markers”—such as biochemical changes—that are statistically highly correlated with success and indicate effectiveness far earlier. They have already been used to approve some AIDS drugs, for example. Dr McClellan is keen to extend the use of such statistical markers to other sorts of drugs, such as those for cancer.

First do no harm

Will this medicine go down well with the FDA's usual critics, of which there are two main groups? Anything that speeds up, and reduces the cost of, drug development will please the first of these, the drug companies. Alas, this in turn may displease consumer activists, if only on the foolish yet somehow appealing grounds that anything the industry likes must be bad. They already argue that the FDA's attempts to speed up the approval process has created a “sweatshop mentality” inside the agency, resulting in an inefficiently high staff-turnover rate and, more important, a rising number of drugs that are approved and later have to be withdrawn. As the FDA does not regulate drug prices, Dr McClellan cannot directly deliver the cheaper drugs that consumer activists clamour for—though they may be pleased, and Big Pharma dismayed, by the agency's move this week to ease the way to market for generic drugs.

Yet Dr McClellan seems remarkably sanguine about the possibility of being attacked from all sides. “It's quite freeing, actually, so I can focus on what we [at the FDA] think is the right thing.” The right thing? His faith in the ability of science, medical and economic, to generate correct answers, seems touchingly pure at this politically charged time for regulators.

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Art as investment

Betting on genius

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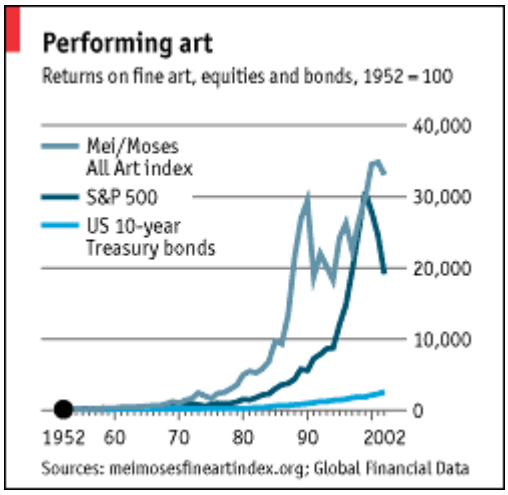
AP

Egon Schiele's view of Krumau (above) hit a record price this year, but fine art may still be too volatile for pension-fund portfolios

INVESTORS in fine art have often kidded themselves that they are making better returns—and getting more pleasure—from the Van Gogh on the boardroom wall than from the equities in their corporate pension fund. Up to a point this seems to be true. An index of fine-art sales tracked since 1952 shows paintings generally outperforming the S&P 500 index (see chart). But woe betide any investor forced to sell at the wrong time. Prices of fine art fluctuate even more wildly than stocks, and transaction costs can be prohibitive, with combined commissions paid at public auctions by both buyer and seller of some 25%, to say nothing of the spread between bid and offer in a private sale.

Art has not been considered a mainstream asset class because of the opacity of the market, the dearth of financial information and general illiquidity. Moreover art, unlike equities, bonds or property, produces no income. It is also at the mercy of fickle public taste. Will this ever change? Michael Moses at New York University's Stern School of Business thinks so. Rather like real estate investment trusts, “we will have art investment funds in the future,” says Mr Moses. Petra Arends at UBS Art Banking, which provides services to private clients, is sceptical: “Art is not an established asset class because its volatility and risk are too high.”



Nevertheless, an experiment with a fine-art investment fund is under way in London, led by Lord Gowrie, a former arts minister, and a number of art dealers. The Fine Art Fund aims to raise $70m by September 30th for investment in top-rated paintings and sculptures. A little less than two-thirds of the fund will be invested in Old Masters, Impressionist paintings and some sculpture. The rest is to go into modern and contemporary art. So far only rich individuals have made commitments to invest in the fund, but a few institutional investors are showing interest.

A precedent was set some time ago by the British Rail Pension Fund, which in the 1970s invested 2.9% of its portfolio, or some £40m ($62m), in more than ten categories of art, including manuscripts and furniture. The fund sold most of its art portfolio in the late 1980s, doing reasonably well with a return on its investment of 11.3% compound to December 1999.

That was then. Because information and transparency are the stuff of liquid markets, today's investors may not have to invest for quite so long a term. They have access to data from art-research firms, websites dedicated to prices of art, indices of the art market and art auctions. A few years ago the Stern School's Mr Moses and Jianping Mei created the Mei/Moses All Art Index, using a composite of annual auction prices. They found, by logging repeat sales of almost 5,000 paintings sold at public auctions from 1875 to now, that in the very long term equities outperform art. (Repeat sales mean that each painting in the index had at least one previous sale.) Over the past five decades, however, art did better. One reason may be the shrinking supply of fine art that is for sale. Messrs Moses and Mei did not include transaction costs in their index, since they are not included in stockmarket indices such as the S&P 500 either.

The main attraction of the art market, apart from the pleasure of having the works around, is its low correlation with other financial assets and its diversifying effect on an investment portfolio. Despite the recent collapse of many financial markets, the fine-art market has stayed buoyant over the past three years, though market volumes have fallen. This year some top art even fetched record prices. In June the view illustrated above of Krumau, a town in Bohemia, painted by Egon Schiele in 1916, sold at Sotheby's for £12.6m, the highest price ever paid for a Schiele at a public auction. Last year a rediscovered Rubens, the “Massacre of the Innocents”, went for £49.5m, making it one of the most expensive paintings ever sold.

But prices for top art can fall from great heights too. Van Gogh's “Portrait of Dr Gachet”, bought by a Japanese businessman in 1990 for $82.5m at the height of Japan's stockmarket (and Impressionist-buying) bubble, has since sold for one-eighth of the price. These days Impressionists are fading, says Ian Kennedy, a curator at the Nelson-Atkins Museum of Art in Kansas City; “tougher, harder” pictures by Picasso and Matisse are more in demand.

Of course, discovering an artist hitherto ignored by the public is the real fun of investing in art. Investors who are not shy of high risk can make the biggest gains at the lower end of the market. “A good Picasso is very unlikely to double in value,” says Jeremy Eckstein at Lyons & Hannover, an art advisory firm. But pictures by the German photographer Andreas Gursky that sold for about £3,000 apiece three or four years ago today fetch more than half a million. British art is another area for possible bargains. “Except for five or six brand names British art is terribly cheap,” says Peter Nahum, an art dealer in London. Henry Wemyss at Sotheby's, an auction house, confirms that the British market is polarised, with Gainsborough, Reynolds and the like fetching high prices, while other British artists sell for relatively little.

The fun of discovery is why art is unlikely ever to loom large in institutional investors' portfolios. Pension funds and insurers are not supposed to amuse themselves playing the art market, nor to reap “enjoyment” dividends. And if they invest in art purely for financial gain they are bound to get it wrong, says Mr Kennedy. So, despite the joys of art investment, it would be wise not to match future liabilities against such risky assets.

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Budget deficits

The rising tide of red ink

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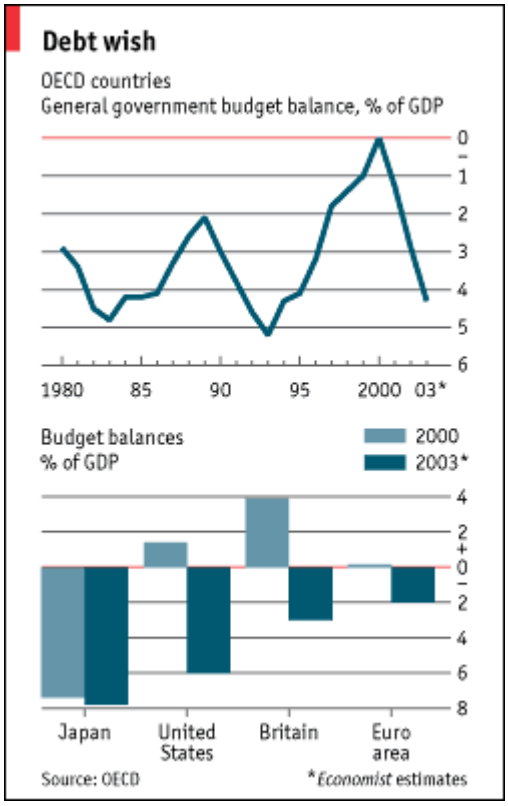
From The Economist print edition

Governments have resumed their profligate habits

SUPPOSE that the governments of rich countries had announced in 2000 that they planned to go on a borrowing binge, and turn their combined balanced budget into a deficit of more than 4% of GDP by 2003. The bond markets would have freaked out. Yet that is what governments have done. The ratio of rich-country government debt to GDP is likely to reach a record 80% by the end of this year, almost twice as large as in 1980. Is this outbreak of public profligacy cause for concern?

Only three years ago, almost two-thirds of all OECD countries ran a budget surplus; most are now in deficit. Earlier this year the OECD estimated a combined budget deficit in rich countries of 3.6% of GDP in 2003. But slower-than-expected growth in many economies, along with additional easing of fiscal policy, means that the deficit could now reach 4-4.5%.That would still be less than the post-second-world-war peak of 5.2% in 1993. But emerging-market governments have also been borrowing more. In Asia outside Japan, budgets were close to balance in the early 1990s; now they add up to a combined deficit of 3% of GDP. As a result, global government borrowing may be approaching record levels.



America is the chief culprit. In 2000 it had a general-government budget surplus (including state and local governments) of 1.4% of GDP. This year the IMF reckons that its deficit could reach 6% of GDP. Some of that reflects the economic slowdown, which reduces tax revenues and increases benefits. But most of it is due to the biggest fiscal stimulus for decades—with tax cuts and higher spending equivalent to 5% of GDP over three years.

In contrast, the euro area's structural budget deficit has been more or less unchanged over the same period. The swing in its headline budget position, from broad balance in 2000 to a deficit approaching 3% of GDP this year, is the result of the region's sluggish growth. Automatic stabilisers (falls in tax revenues and rises in benefit payments) have been allowed to operate, but nothing more. Indeed, some governments—notably Germany and Italy, which are both in recession—have been forced to tighten fiscal policy. Despite this, Germany's deficit could reach 4% of GDP this year, breaching the 3% ceiling under Europe's stability pact for a second year. The European Commission warned Germany this week that it could face sanctions unless it reduces its deficit in 2004.

Unlike the euro area, Britain has seen a big easing of fiscal policy, turning a surplus of 3.9% of GDP in 2000 into a deficit of almost 3% of GDP this year. That is dwarfed by Japan's deficit of 8% of GDP, but Japan's rapidly mounting public-sector debt actually conceals a modest tightening in its structural budget balance, ie, after adjusting for the cycle, since 2000.

In its latest *Economic Outlook*, the OECD paints a grim picture of future fiscal positions. Assuming that annual GDP growth averages almost 3% and that underlying fiscal policies are broadly unchanged, the average budget deficit of OECD countries will still be 2.6% of GDP in 2008, and the ratio of public debt to GDP will rise to 86%. The underlying fiscal situation is even worse since these numbers ignore future pension liabilities as populations age. Some economists argue that governments should now be running

budget surpluses to reduce debt and the need for future tax rises. The OECD concludes that rich economies have little scope for further fiscal stimulus besides the automatic stabilisers. In some cases, it says, future fiscal problems are so severe that governments need to start tightening now.

Don't panic

A recent analysis by UBS suggests that the OECD's concerns may be overdone. The main reason to worry about government borrowing is that it could push up long-term interest rates, crowd out private-sector investment and hamper growth. But with the exception of Japan, public-sector debt is hardly spiralling out of control. The OECD's forecasts suggest that in 2008 the debt-to-GDP ratios in America and the euro area will still be below their peaks in the 1990s. Moreover, while there is some economic slack, borrowing by firms remains weak and monetary policy is loose, there is scant risk that rising interest rates will crowd out the private sector. Bond yields have risen, but they are still much lower than a few years ago.

The main reason why total OECD government debt is rising so fast is Japan, where debt is already 156% of GDP and heading for nearly 200% by 2008. So should Japan's government immediately slash public spending and raise taxes? Not until its economy looks stronger—its ratio of debt to GDP has been soaring partly because its nominal GDP has been shrinking.

Japan's public-debt problem may be less severe than it looks. Around 60% of it is held by the Bank of Japan or other public-sector institutions. It is therefore not really “debt”: bonds purchased by the central bank rather than the private sector imply no net increase in public-sector debt service and hence no need for future tax increases. Ben Bernanke, a governor at America's Federal Reserve, has argued that, to kick-start Japan's economy, tax cuts should be financed directly by the Bank of Japan. If such a fiscal boost increased nominal GDP while debt in private hands was unchanged, this would reduce the debt ratio. Rising nominal GDP would also boost tax revenues and trim the deficit.

Has America's recent budgetary binge been imprudent? Bill Dudley, an economist at Goldman Sachs, argues that a big increase in America's budget deficit was inevitable after the bursting of its bubble. To understand why, one needs to focus on an accounting relationship: by definition, the sum of net private-sector saving (saving less investment) and public-sector saving (the budget balance) must be equal to a country's current-account balance.

In 2000 the private sector had a net financial deficit of 5% of GDP, while the public sector had a surplus of 2%. Together they were equal to the current-account deficit of 3% of GDP. The private-sector deficit was unsustainable and has shrunk to 1% of GDP. But thanks to an overvalued dollar and sluggish growth abroad, America's current-account deficit has widened to 5% of GDP. So to satisfy the accounting rule, all the adjustment in the private-sector deficit had to be accommodated by a rise in the budget deficit. Without tax cuts the economy would have been weaker (and the current-account deficit smaller). To allow the decline in the private-sector deficit, the budget deficit would still have had to widen sharply—through a deeper recession eroding tax revenues.

A better criticism of the Bush administration's tax cuts is their composition. The equivalent stimulus could have been achieved at a much lower budgetary cost, both near and long term, by focusing tax cuts on lower-income households who are more likely to spend their gains.

The recent increase in government borrowing may not be cause to panic in the short term so long as private-sector demand is weak. Indeed, there is a strong case for Germany to loosen its fiscal policy. But the biggest test will come when economies recover. Continued heavy borrowing could then start to push up interest rates and harm private investment. That is when governments must act swiftly to tighten their belts. But not yet.

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Economic forecasts

Jackson poll

Aug 21st 2003
From The Economist print edition

A sure way to predict the future

THE high point of the international economics calendar is the annual symposium of the Federal Reserve Bank of Kansas City. The intense competition to attend this conference has, of course, nothing to do with the fact that it is held in Jackson Hole, Wyoming, a stunningly beautiful Rocky Mountain resort. The quality of the papers presented and the rigorous intellectual debate in the company of Alan Greenspan and many of the world's other top central bankers is sufficient pull. This year's symposium starts on August 28th.

Each morning consists of formal economic sessions, followed in the afternoon by intense debates while hiking or white-water rafting. Discussing the relevance of Ricardian Equivalence as you walk breathlessly uphill at over 6,000 feet can test even the fittest. In the evening after dinner it has become a tradition for a select group of economists to meet for drinks on the terrace in the shadow of the towering Grand Tetons.

Since these include some of America's top economists, your correspondent has made a habit of taking a poll each year. At the peak of the stockmarket boom they were asked, “is this a bubble?”“No”, they voted. In August 2001 they were asked, “will America's economy dip into recession?”“No chance”, they replied. The economy turned out already to be in recession. Last year's question was, “will the federal funds rate (then 1.75%) fall to 1% or less within the next year?” Almost everybody said “no” (a senior Fed official wisely declined to vote). Only two economists correctly predicted rates of 1%: John Makin, at the American Enterprise Institute, and Martin Barnes, at the *Bank Credit Analyst*.

Given this remarkable record, it would be remiss not to poll our elite group once again this year—and then bet on the exact opposite. We invite readers to suggest a question. Ideas should be sent to suggestions@economist.com by August 28th.

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Japanese stockmarkets

Summer madness

Aug 21st 2003 | TOKYO
From The Economist print edition

Tokyo's punters defy unseasonal weather

ON AUGUST 18th, after a miserable year, the Nikkei 225, Japan's benchmark stock index, at last broke through 10,000. Spurred by a global rally, and some cheerier news about Japan's economy, such as better-than-expected real GDP figures earlier in the month (though nominal GDP remained very weak, a sign that Japan has yet to defeat its spiralling deflation), the index has gained more than a third since April. Bulls had even more to cheer about two days later, when Topix, a broader index, clambered above 1,000 for the first time in 13 months.

Unusually high trading volumes on the Tokyo Stock Exchange were an early sign that investors were feeling buoyant this month. Trading volumes usually drop dramatically in mid-August during Japan's Bon Festival week, when people traditionally go home to pray to their dead ancestors—or just go on holiday. But this year investors stayed active. According to Mamoru Shimode of Deutsche Securities, average trading volumes so far this month, at 1.2 billion shares a day, have been higher than in any other August since at least 1987.

This is partly because individual margin traders, who operate from home and take advantage of cheap internet brokerage fees, have been punting like crazy, driving up cheap stocks. Foreign investors have also been busy buyers. Brokers say much of the activity comes from foreign hedge funds which are betting that Japan, a laggard in the recent global rally, might start to catch up in the coming months. By contrast, bigger, conservative overseas institutional investors, which measure their performance against a global benchmark, are apparently being more wary.

Still, the upward trend seems to have persuaded even some persistent sellers of equities, especially local institutional investors that had been busy unwinding cross-shareholdings held among corporate chums, to hold back their sales. But, declares Ryoji Musha of Deutsche Securities, although speculative investors help to provide momentum, they can also quickly move out.

One concern for investors is that rising stock prices are pushing up bond yields. This is particularly bad news for the beleaguered banks, which hold large amounts of Japanese government bonds (JGBs). On August 20th, the yield on the ten-year government bond reached its highest level in more than a year, rising to 1.4%, almost triple the level in June. Falling bond prices will probably offset banks' equity gains, says Koji Shimamoto of BNP Paribas Securities Japan.

Still, the effect of rising long-term interest rates on Japan's economy is likely to be much smaller than in other countries such as America, says Mr Shimamoto. For example, mortgages are less sensitive to rising rates, thanks to an underdeveloped market that is dominated by a government lender, the Housing Loan Corporation. Nor do rising rates have much impact on corporate borrowers, since the weakest rely on cheap bank loans anyway.

A bigger concern for the economy is the weather: the summer has been one of the coldest on record. This has hurt consumption, which was already extremely weak to begin with. Retailers are suffering, with sales of clothing, air conditioners and other summer goods falling sharply. Brewers, for whom the summer is usually the strongest season, saw beer sales fall by 12% year-on-year in July, to the lowest level on record. Dai-ichi Life Research Institute, a think-tank, reckons that weak consumption and poor harvests could cost the economy as much as ¥1 trillion ($8.3 billion), knocking 0.3-0.4% off GDP for the July-September quarter.

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Hungarian mortgages

House party

Aug 21st 2003 | BUDAPEST
From The Economist print edition

Lavish subsidies lure hungry homebuyers

HUNGARY'S economy, once central Europe's star performer, is sputtering. A strong currency and unjustified wage increases are sapping its competitiveness, while last year's budget deficit of nearly 10% of GDP is proving hard to cut. Monetary policy is in disarray after a botched devaluation of the forint in June, which tarnished the central bank's inflation-fighting credentials.

Yet Hungary's consumers seem unconcerned. Buoyed by their pay rises, they are borrowing with a vengeance. Retail loans grew by almost 70% last year, compared with roughly 30% in the Czech Republic and only 9% in Poland. The growth is fuelled by lending for residential mortgages, which accounted for 60% of household credit last year. Between 2000 and 2002, mortgage loans increased by 260%, albeit from a tiny base.

Hungary's previous government kick-started the market in 2000 by introducing generous state subsidies and tax breaks designed to widen access to modern housing. The initial target was newly built properties for young couples with children. Six forms of relief were offered, including a popular interest-rate subsidy. But as mortgage lending caught on and parliamentary elections loomed in 2002, the government extended the scheme to older homes, increasing the numbers eligible. It also gave a fillip to the country's shallow capital market by encouraging a German-style covered mortgage bond market. The lender receives a subsidy when making a mortgage loan. A subsidised fixed-rate loan, with a maximum maturity of 20 years, now costs borrowers 5-6% a year—roughly half the market rate.

With shrinking margins on corporate lending as interest rates fall, banks are turning to mortgages. FHB, a state-owned bank mandated to meet the government's target of building 40,000 new homes a year, dominates the fast-growing mortgage bond market. It refinances loans originated by other banks, enjoying the subsidy without taking the credit risk. OTP, Hungary's giant savings bank, is the biggest mortgage lender, with over half the market. It set up its own mortgage bank last year and increased its housing loans by 164%. “Hungary is the only country in the region where mortgage loans make a meaningful contribution to bank profitability,” notes Paul Tucker, a bank analyst at Merrill Lynch.

Yet a housing bubble still seems a remote danger. Property prices have not risen significantly since the subsidy kicked in, while mortgage debt accounts for only 5% of GDP—one-eighth of the average in the European Union, which Hungary is due to join in May. Reckless demand is tempered by robust foreclosure procedures and lending well below the regulatory limit of 70% of a property's value. Recently the subsidy has been scaled back. Banks' margins have thinned, while borrowers' abuse—such as multiple loans on the same property—has lessened. Yet the scheme is a victim of its own success: customers, ever fearful that the prized subsidy will be scrapped, rush for more mortgages, forcing the government to dish out ever more funds.

In its latest health check on the Hungarian economy, the IMF questioned the fiscal sustainability of the programme. Housing relief costs nearly 1% of GDP. This could rise sharply if the scope of the subsidy is not reduced. Last year the government spent 14% more on subsidies than originally planned; this year it expects to overshoot its target by nearly 47%. Yet despite the government's pledge to cut the budget deficit to 2.5% of GDP by 2006, with a view to joining the euro in 2008, few expect the subsidy to be phased out fully given its political importance. “Without sounding populist, the government owes this to the population,” says George Fenyo, a managing director at OTP. This may be true—but it has to worry about qualifying for euro entry too.

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Thai finance

Fowl play

Aug 21st 2003 | BANGKOK
From The Economist print edition

The government pushes its own investment funds

A VAYUPAK is a mythical bird that occasionally lays golden eggs. Two “Vayupak” mutual funds, to be set up by the Thai government, are expected to do rather more. According to Thai officials they will not only provide a good return to investors: they will also mop up excess deposits in Thai banks, improve the management of state-owned firms, speed privatisation and rescue stricken Thai businesses.

The scheme's detractors tell it rather differently: it is a poor alternative to privatisation, which will increase government interference in the economy and distort local financial markets. Whichever account is correct, the funds, to be launched in October, seem likely to loom as large in Thai finance as the bird does in Thai folklore.

The first fund, for retail investors, will start by buying shares (mainly of banks) now held by the government. The second fund, for institutional investors, will take up the finance ministry's right to hold a 20% stake in all privatised firms; it will assume the government's option to participate in capital-raising at partially state-owned companies; and it will buy the debt and equity of companies that the government deems strategic. Both funds will be listed on the Bangkok stock exchange, with the government retaining roughly 30%.

Suchart Jaovisidha, the finance minister, says that the government devised this scheme to make better use of the 500 billion baht ($12 billion) that it has tied up in wholly and partially state-owned firms. By putting professional managers in charge, the government will ensure that target firms get the attention and market discipline they deserve; meanwhile the government raises some capital.

Ammar Siamwalla, a prominent Thai economist, argues that Vayupak is a pseudo-privatisation in which the government manages to borrow against the value of its holdings without relinquishing control, and without adding to the public debt—on paper at any rate. Mr Suchart argues that Vayupak will advance privatisation, since unions will mount less resistance to sales to a government-affiliated shareholder such as these funds.

The fear is that Vayupak will not take hard-headed commercial decisions, but may allow concern for the common good to mire it in unproductive investments. The various troubled companies that have been mentioned as possible recipients of Vayupak's largesse are just the sort that many investors would steer clear of. That is exactly why Vayupak is needed, says Mr Suchart. Indeed, he wants Vayupak to be strong enough to counter market trends in times of crisis. The likely initial size of the combined funds, 100 billion baht, represents about 4% of the market capitalisation of the Bangkok stock exchange.

So Vayupak will mark another step in the government's growing involvement in the economy, including a role in corporate restructuring, through the state-owned Thai Asset Management Corporation, and its big stake in many banks thanks to state-led recapitalisation after the 1997-98 financial crisis. Mr Suchart points out that the government of Hong Kong, too, caused controversy by investing in local shares in 1997, but in the end helped to stabilise the market and earned a healthy profit to boot. Vayupak's critics say a more apt comparison might be Malaysia, where the government tends to steer resources towards favoured firms and businessmen.

At the very least, Vayupak's retail fund will compete unfairly with banks and private mutual funds. The government has promised to buy back the shares it sells to the fund, at a pre-set price, at the end of the fund's ten-year life. So investors are guaranteed one percentage point above the yield on term deposits no matter how the shares perform—higher returns with lower risk. Golden prospects for all, perhaps, except for taxpayers.

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Afghan property market

Boomtown squats

Aug 21st 2003 | KABUL
From The Economist print edition

Foreigners pay up despite the goats

Get article background

LOCATION, location, location goes the mantra. But in Kabul? Yes. The war-ravaged capital is one of Asia's hottest property markets. House prices have risen tenfold in some parts since the end of the war in November 2001. At the centre of the boom is Wazir Akbar Khan, a district favoured by foreigners and known affectionately as Wak. A middling house in Wak now costs $300,000, a large one up to $1m—payable in cash.

Wak isn't much to look at: a few potholed streets with 30-year-old concrete homes of German design. The air is thick with fecal dust; goats pick through rubbish at street corners. Just like the rest of Kabul, then, except for the higher rents. They range from $2,000 to $28,000 a month, according to Sayed Amin of Omidwar estate agents. For Wak offers something rare: intact homes with electricity and running water.

During the Soviet occupation in the 1980s, Mr Amin's father rented these properties to diplomats and spies for $150-200 a month. The family business limped through the 1992-96 civil war, letting the odd property to those whose own homes across town had been blown to smithereens. It fared less well under the Taliban: the family fled to Pakistan after a Talib reading of *sharia* law declared estate agents to be satanic.

Returning after the Taliban fell, however, Mr Amin and his father let dozens of homes in Wak to foreigners at previously unthinkable prices—some Koreans paid $11,000 a month for a six-bedroom house. Rents remain high, although turnover has cooled since the Iraq war. The focus is now on buying and selling properties, particularly those with land. The owner of a house with a large garden in the Shar-i-Naw district adjoining Wak recently turned down an offer of $2m—he wants $3m, and may get it. Land in Wak has already hit $400 a square metre. The government is hoping to cool the market by shifting the United Nations to the dusty wasteland beyond the airport.

But the property gurus doubt this will do the trick. The inflow of refugees—the city doubled in size to perhaps 3m in 2002—should keep prices buoyant for years, they say. Even the price of a two-bedroom flat in Makroryan, a crumbling complex of Soviet-built tower blocks, has quadrupled: $50,000 to buy, or $400 a month to rent. In the mud-brick slums rents have tripled in the past year: $30 a month gets you three rooms and access to a well, but no electricity.

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Economics focus

Catching up

Aug 21st 2003
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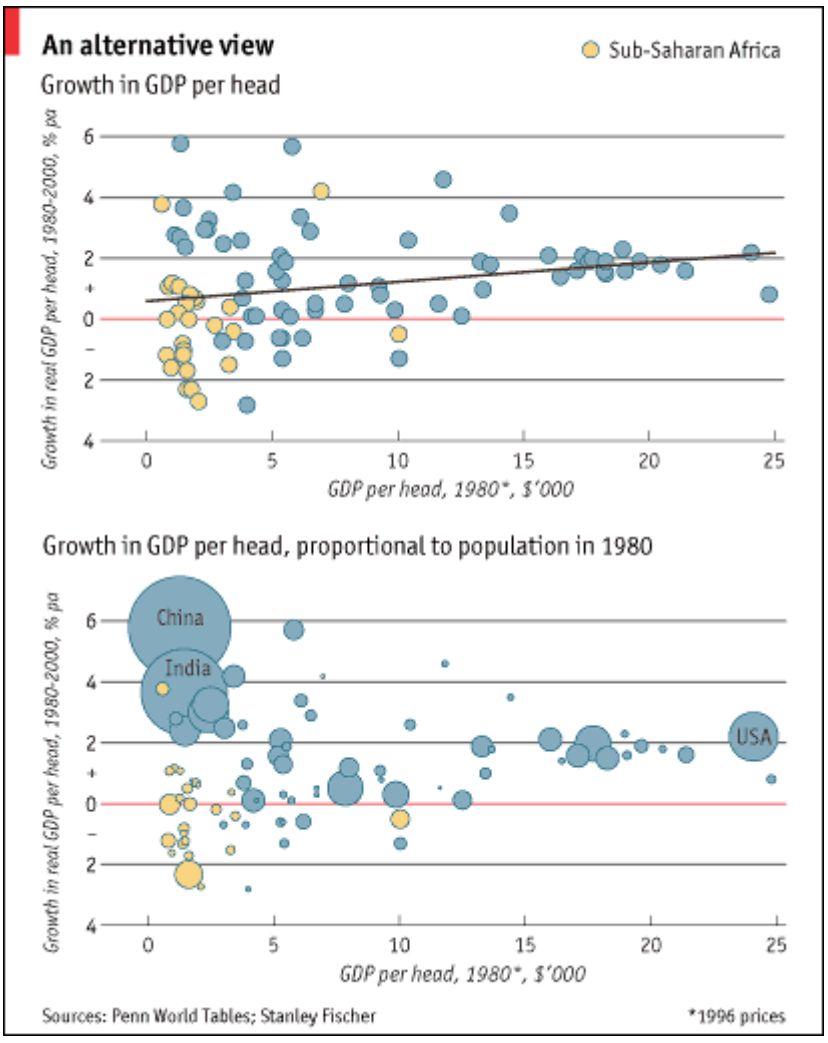
If you consider people, not countries, global inequality is falling rapidly

EARLIER this year, Stanley Fischer, formerly of the Massachusets Institute of Technology and the IMF, now a senior executive with Citigroup, delivered the prestigious Richard Ely lecture at the annual meetings of the American Economic Association. It was a privilege he would have preferred not to be granted, since he was standing in for his old friend, Rudiger Dornbusch, who died last year. Nonetheless he used the occasion to memorable effect, delivering a fine tribute to Dornbusch and then an overview and defence of globalisation that Dornbusch himself, an economic internationalist if ever there was one, would have been proud of. The lecture has now been published*.

The whole essay deserves to be read carefully by globalists and anti-globalists alike. But packed in alongside lots of other good stuff is a pair of charts that deserves an even wider circulation. Admittedly, the diagrams are complicated at first sight—but they are worth the effort. Once one has understood them the answers to some of the most important questions about globalisation are clearer.



Begin with the top chart. Each point represents a country. The vertical axis shows average annual growth of income per head between 1980 and 2000; the horizontal axis shows the level of income per head in

1980. Note in passing that the countries of sub-Saharan Africa are distinguished from the others: they are clustered in the lower left-hand corner of the diagram, representing both very low incomes and very slow growth.

In the last 20 years of the 20th century, globalisation, however you measure it, was advancing rapidly. Globalisation, according to its advocates, helps poor countries to catch up. So what one would wish this chart to show is a marked downward-sloping pattern of points: saying, in effect, the poorer any given country, the faster its growth. The chart shows no such pattern. In fact, a line of best fit through the scatter of points (as shown) slopes slightly upwards, implying that, on average, the rich are getting richer faster than the poor are getting richer.

In the bottom chart, the axes and the countries plotted are the same as before, but the points are now drawn as circles whose areas are proportional to the population of the countries concerned. Whereas the first chart gave a sense of how the poorest countries in the world are doing in relation to the richest, the second chart shows how the people living in the poorest countries are doing in relation to the people living in the richest. Switching the focus to people transforms one's impression of the figures, for now one sees a strongly downward-sloping pattern. The poor, on average, are catching up. And the main reason is that two of the poorest countries in the world—China and India—have both (a) enormous populations and (b) rapid growth in incomes per head in the years in question.

Encouraging as that may be, an anti-globalist would draw attention to the very large number of people (as well as countries) who suffered not merely from slow growth but from negative growth—falling incomes per head—in the 1980s and 1990s. This is true, but is it just a coincidence that India and China, both of them rapid globalisers, did so well, whereas the countries of sub-Saharan Africa (in particular) combined severely limited economic integration with dismal economic performance? Bearing this in mind, the more closely one looks at the charts, the stronger the case for globalisation seems. The real question—at least so far as reducing global poverty is concerned—is not whether globalisation is a good thing, but why some countries (and in Africa's case an entire region) find it so difficult to participate. The answers, as Mr Fischer relates, are complicated. Rich- and poor-country governments alike are partly to blame.

America and the European Union both maintain trade restrictions that hurt the developing countries. They have been promising reform for years, but the world is still waiting. Mr Fischer calls for “significant increases” in aid, though he acknowledges that aid will need to be more selective if its patchy record of success to date is ever going to be improved.

But governments of the poorest countries themselves bear much of the responsibility. Many of the world's highest trade barriers are those imposed by poor-country governments on trade with other poor countries—to say nothing of the failure to provide security or stability, or of the enormous sums (including money received as aid) squandered on vanity public projects or luxuries for the ruling circles and their chums. For countries with governments like this, globalisation is always going to be difficult to achieve. Nonetheless, it cannot hurt to understand that the problem is not too much globalisation, but too little. If you ever need reminding of this, look at Mr Fischer's charts.

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* “Globalisation and Its Challenges”. By Stanley Fischer. AEA Papers and Proceedings. *American Economic Review*, volume 93, number 2, May 2003.

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Gulf-war syndrome

The fog of war

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Rex Features

As casualties from the war in Iraq mount, a battle is still raging over the causes of Gulf-war-related illnesses

WAR is not a healthy business. Since hostilities began in March, more than 330 American and British soldiers have died in Iraq. All such losses are regrettable, but two deaths in particular are a puzzle. They were among 18 servicemen who have developed severe pneumonia in the past six months, part of a wider but milder outbreak that has affected another 74 American soldiers.

Pneumonia is no stranger to army life, so these 90-odd cases are not surprising. What is unusual is the seriousness of the 18 cases, says Greg Gray, an epidemiologist at the University of Iowa. This mystery pneumonia has put healthy warriors on breathing machines. And although pneumonia can be infectious, there is no sign that soldiers are spreading it to each other; indeed, the severe cases are found in units deployed as far apart as Iraq, Kuwait, Qatar, Djibouti and Uzbekistan.

American army medical teams are trying to track down the cause of this outbreak. Patients have been given questionnaires to see if they share any medical history or subtle physiological features. Researchers from the Centres for Disease Control and Prevention are working with the army on blood and sputum tests to screen victims for a range of bacteria, viruses, fungi and parasites, as well as signs of auto-immune abnormalities.

The patients do not share a common occupation and tests seem to have eliminated microbial suspects such as the bacteria that cause tuberculosis and Legionnaires' disease, as well as the SARS virus and Hantavirus. One interesting finding, says Dr Gray, is that roughly half the severe pneumonia cases have elevated levels of eosinophils, a type of white blood cell normally associated with fungal or parasitic infections. Army officials believe that pathogens, or other environmental factors, are more likely causes than biological or chemical weapons.

Despite the mystery, rooting out the cause of these pneumonias will be easier than unravelling the epidemiological enigma of the 1991 Iraq war: Gulf-war syndrome (GWS). GWS refers to an odd assortment of symptoms—joint pain, fatigue, headache, memory and sleep problems—reported by thousands of Gulf-war veterans in several countries. Although many cases have been explained by post-traumatic stress disorder, roughly a fifth remain undiagnosed.

As Simon Wessely, a researcher at the Institute of Psychiatry in London, points out, there is no question that the symptoms of GWS are genuine. The problem is that—despite over a decade of research in many countries and more than $200m spent in America alone—most experts are hard-pressed to come up with a clear definition of a unique syndrome that can explain them. Or a particular cause to account for them—be it vaccines against biological agents, nerve-gas antidotes or depleted uranium from shell casings.

Certainly, some well-defined diseases have cropped up. Ronald Horner, a researcher at the National Institute for Neurological Disorders and Stroke in Maryland, found that 1991 Gulf-war veterans have twice the risk of developing amylotrophic lateral sclerosis, an extremely rare and fatal neuro-degenerative condition, compared with soldiers outside the region. GWS, though, is far less clear-cut than this.

One answer may be found in the work of Craig Hyams, at the United States Department of Veteran Affairs in Washington, DC. He has looked at military illnesses through history and found similar complaints as far back as the American civil war. Might GWS be just a modern-day version of the traditional impact of war?

Robert Haley, a researcher at the University of Texas Southwestern Medical Centre in Dallas, thinks not. He reckons that GWS is a defined physiological disorder caused by exposure to chemical weapons. Dr Haley's research, using magnetic resonance spectroscopy, has shown biochemical differences in parts of the brain called the basal ganglia and brainstem. He argues these are a sign of damage varying according to the type of trouble experienced by veterans, be it memory loss or body pain. Dr Haley's research has also shown that sick and well Gulf-war veterans have different levels of a key blood enzyme called para-oxonase. He contends that this may make particular soldiers more vulnerable to the effects of some nasty chemicals.

Many researchers, however, question Dr Haley's work. In part, this is because his tests were performed on only 43 servicemen (23 of whom were ill). This is a rather small study group, and further work is now under way to replicate these studies in larger groups of soldiers. Researchers at several army and navy medical centres, the Institute of Medicine and the General Accounting Office are also investigating exposure to chemical weapons. Of particular interest is a place called Khamisiyah, an Iraqi munitions dump blown up by American soldiers in 1991 and later found to include rockets loaded with sarin, a deadly chemical. How much sarin was released, how far it spread, how many soldiers were exposed and what sort of medical problems they have encountered are all matters of debate.

Although many scientists and defence officials on both sides of the Atlantic dispute the very existence of GWS, allied forces in the recent Iraqi war did err on the safe side. Britain, for example, changed its vaccination schedule for soldiers, giving more jabs before troops were deployed rather than in the field. The use of the whooping-cough vaccine was also eliminated. This was used in the first Gulf war to boost the action of anthrax vaccine. It has been suggested that this combination of jabs may be linked to some symptoms of GWS. In addition, “combat stress teams”, including social workers and psychologists, have been sent out with the troops to help them deal with the physical and mental pressures of the conflict.

The biggest change for both forces was better information management. One of the greatest obstacles to solving the puzzle of GWS has been a lack of reliable data. This time round, both armies have tried to improve the way they brief soldiers on health risks, and have kept medical records up-to-date. Health assessments have already begun on those who have returned.

Environmental surveillance technicians have also been sent to Iraq, with portable kits to test encampments for chemical contaminants. And soil, air and water samples have been sent back for analysis. There is also a network of medics carrying portable handheld computers at the front line, and doctors with laptops in field hospitals. This information is analysed using software which automatically detects unusual patterns of illness.

At the very least, these measures will help epidemiologists to work out the cause of the pneumonia outbreak. They should be of use in picking up emerging medical problems, including symptoms associated with GWS. Dr Hyams has no doubt that this year's conflict, like those before it, will throw up some baffling illnesses, given the “horrific and varied exposures” of war. No matter who or what the enemy is, forewarned is forearmed.

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Agriculture

Rich pickings

Aug 21st 2003
From The Economist print edition

A new research centre in Uganda will study the banana

TO UGANDANS “matooke” means both food and banana. This is hardly surprising, as the average person in Uganda consumes over 350kg (772lb) of bananas a year, more than anywhere else in the world. So it is fitting that a new banana research centre—managed by Uganda's National Agricultural Research Organisation (NARO) and largely funded by the government—opened this week in Kawanda, outside Kampala.

Bananas (including plantains) are staple food crops for millions of people in poor countries, and the fourth-largest crop in the world by value. So a better understanding of the humble banana is vitally important. But as 90% of production takes place on small farms, poor-world growers are not best positioned to commission the basic research that is urgently needed. Uganda is, as it is the second-largest producer in the world, growing 11m tonnes of bananas each year.

The trouble with bananas is that they are clones. In the wild, the banana is an inedible fruit stuffed with stony seeds. Edible varieties of the banana probably first arose as random, sterile, mutants containing no seeds. These varieties would have then been propagated by growing cuttings from suckers that sprout out from the parent plant.

The problem with growing clones, though, is that they are susceptible to disease. If a parent plant is infested with a pest of some kind, the offspring is likely to be too. And because there are so few varieties of edible banana, there is little genetic diversity from which pest-resistant versions can be developed. Chemical spraying is not an option either, as it is prohibitively expensive and not always effective. The result is that diseases can spread very rapidly in Uganda's bananas, infecting the entire crop. Outbreaks of pests such as nematodes or weevils can cut crop yields by 50% or more.

The NARO lab plans to fight such pests in several ways. One is by equipping a laboratory to produce tissue cultures from samples of the over 100 varieties of edible banana cultivated in Uganda. Since bananas have no seeds, the only way to obtain a plant free from disease is to grow a culture of banana tissue in the laboratory. It is tricky to do successfully. But NARO says that, by providing new, clean varieties of bananas to farmers, the weight of a bunch could potentially be doubled.

A longer-term aim will be to use the tools of molecular biology to improve the banana. This research will be aided by the International Network for the Improvement of Banana and Plantain (yes, really), a group based in Montpellier, France, that co-ordinates international banana research. If all goes as planned, this will give Uganda access to rich-country expertise in genetics. Ultimately, it should allow the country to become self-sufficient in the science of manipulating bananas using selective breeding and genetic engineering to create varieties that are disease-resistant and have higher yields. Selective breeding is possible only on the rare occasions that two bananas pollinate.

Moving research closer to its point of application will not only speed the turnaround of useful discoveries but should also increase farmers' acceptance of innovations. Ugandans will be hoping that the researchers do not slip up.

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Astronomy

Fly me to the moon

Aug 21st 2003
From The Economist print edition

The first European mission to the moon is scheduled to blast off in October

ALTHOUGH many missions have been sent to our lunar neighbour, the lure of the moon remains enormous. If all goes well, in October, another attempt to prise free a few more lunar secrets will launch from French Guiana. Scientists from the European Space Agency (ESA) are looking for clues that may shed light on the moon's origins, and also search for hard evidence of water-ice in craters near the poles.

The tiny, 370kg (816lb), probe known as SMART-1 will hitch a ride into space with two larger commercial payloads. And although the mission is relatively cheap at *euro*100m ($111m), it will carry out one of the most comprehensive “global” explorations of the moon done so far.

After launch, SMART-1 will get its oomph using solar power to drive a novel ion engine. This expels xenon ions in a propulsive jet. Although this cannot match the whoosh of a chemical rocket (the thrust the ion drive generates is equivalent to the weight of a postcard), it can go on pushing gently for months.

SMART-1 is a formidable piece of design. It is packed with scientific instruments such as a miniaturised camera, an infra-red spectrometer and sensors to measure solar wind and other electrical currents. But for those who believe that the moon was formed from the debris of a monstrous collision between the Earth and a smaller planet, the X-ray spectrometer is probably the most important instrument on board.

This will map for the first time iron, magnesium, aluminium and silicon over the moon's entire surface. If the ratio of magnesium and iron on the moon conforms with scientists' predictions it will provide evidence that the moon really is a chip off the old block.

ESA also hopes to use the infra-red spectrometer to look at the bottom of craters in the polar regions, seeking out the infra-red signature of water-ice. It will peer into craters that are usually in shadow. Because the rims of these craters catch rays of light from the sun, this may provide sufficient illumination for the spectrometer to detect frozen water.

If the mission succeeds—the probe should arrive by January 2005—ESA hopes to use similar ion engines on farther-ranging space missions, such as BepiColombo, its mission to Mercury in 2011. And if frozen water were found in lunar craters, that would indeed be icing on the cake.

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Biomimetics

Trick of the light

Aug 21st 2003
From The Economist print edition

A deep-sea sponge with optical properties

ENGINEERS often admire the ways in which living creatures solve problems. The difficulty with man-made fibre-optic cables, says Joanna Aizenberg of Lucent Technologies in Murray Hill, New Jersey, is that they often crack and break. For a solution, Dr Aizenberg and her colleagues have turned to the exquisitely structured siliceous skeleton of a deep-sea sponge known as the Venus flower basket. This sponge, they say, can do things better.

As they explain in a paper published in this week's issue of *Nature*, the sponge has a lattice of spiny outgrowths, or “spicules”, at its base, which provide structural support. These spicules behave remarkably like conventional fibre-optic cables. They are similar in size, and are even made of the same material. And as with commercial optical fibres, the spicules have three separate layers of material with different refractive index values which allow them to bend light waves that travel through their core.

According to Dr Aizenberg, these layers are glued together by organic films at their surface, which make them less likely to break. Furthermore, the spicules are formed under normal, low-temperature conditions. Commercial optical fibres, by contrast, must be manufactured under high temperatures, and often require additives such as sodium ions to improve their refractive index properties (and hence their ability to conduct light waves). Adding the sodium ions at high temperatures is problematic, says Dr Aizenberg, because these are lost during cooling. Again, though, the spicules of the sea sponge have the upper hand, because sodium ions are naturally present throughout their lengths.

The team is not sure just how these optical fibre spicules benefit the sponge. The job of anchoring the sponge to the sea bed seems unlikely to require the high-grade optical properties found in the spicules.

The researchers do suggest one intriguing possibility, however. This is that the sponge may be using the fibres to distribute light emitted by bioluminescent animals. The filter-feeding sponge lives in the inky depths of the ocean, at between 1,000 and 15,000 feet. If it is harbouring some of the light-emitting creatures that live at these depths, the spicules may serve as a fibre-optic network to attract other micro-organisms to serve as food for the sponge. Dr Aizenberg says “it is potentially an ‘illuminated glass house' of the deep”.

The research group hopes that, by modelling such natural processes, it can not only learn more about the lifestyle of the sea sponge but also exploit its chemical prowess to build better fibre-optical materials. The Venus flower basket derives its name partly from its delicate lattice-like skeleton, and partly from the fact that its interior typically houses a pair of shrimps that breed in it for life. As such, it is a symbol of a happy marriage in some cultures. In the world of fibre-optics, a marriage between conventional technology and biology may prove equally fruitful.

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Letters

The humour of tranquillity

Aug 21st 2003
From The Economist print edition

Ronald Grant

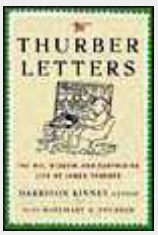
Walter Mitty's creator, James Thurber, was the perfect correspondent—wry, mocking and hilarious. His collected letters are a joy to read

ONE of the quiet losses of our era is the authorial correspondence. Even if contemporary writers are sufficiently vain to keep duplicates of e-mails, the form's terse, careless conventions would likely discourage anthology.

Hence the lively, lucid and often hilarious collected letters of James Thurber constitute an increasingly bygone delight. A humorist and cartoonist published abundantly in the *New Yorker*, Thurber, who died in 1961, was a maniacal correspondent, posting long professional reflections to fellow writers such as John O'Hara and E.B. White, combative diatribes to his editors, Harold Ross and William Shawn—who dared tinker with Thurber's copy—and artful, absurdist parodies to passing acquaintances.

Early love letters document Thurber's unreasonable romanticism, and afford the surreptitious pleasure of snooping through a flatmate's desk drawer. They certainly provide a model for boyfriends everywhere of letters-not-to-send, for in these Thurber is frequently peevish, huffy and patronising: “Today you acted in a way, dear befuddled child, that no nice lady ever does to any nice man.” And one finds a tinge of misogyny in lines like, “When a girl is simply trying to be a friend, a pal, a sport, she is, God help me and God help her, an almost total loss, a sad, annoying thing.”

The Thurber Letters: The Wit, Wisdom, and Surprising Life of James Thurber
Edited by Harrison Kinney and Rosemary A. Thurber



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As Thurber enters the shank of his career, humorousness evolves from bent to stance. He comes to believe that “it is harder to write a comedy character in a drawing-room scene than King Lear in a storm”, and that “the writer who fails to see the humour inherent in love, sex and marriage misses half of what they mean.” To Thurber, the only unforgivable sin is to be po-faced, a shortcoming upon which he seizes amid the left and right.

Liberals get it in the neck for their sober-sided virtue, since “one of the greatest menaces” is “people with intelligence deciding that the point is to become grimly grey and intense and unhappy, and tiresome because the world and many of its people are in a bad way.” To Malcolm Cowley he mocks the faddish socialists of the 1930s with the ditty, “Love and kisses to you and/the wife and the baby, and/if they

were only starving/wouldn't that be realer and/better?" Yet later he is equally offended by McCarthyism, whose zealots not only suppress free speech, but are—sin of sins—unfunny to boot.

Petulant love letters aside, Thurber rarely errs in the killjoy direction himself. For example, during the second world war he invents the inept military man Captain Blandish: "You will remember the awful dawn when he shot the bugler because he thought his sergeant had said, 'The fellow was a burglar.'" Indeed, Thurber's drollery is compulsive, and nary a missive goes unpunctuated by his dry wit.

Some of his most entertaining passages pertain to his editing by the *New Yorker*, whose fussy style guidelines and passion for commas drove Thurber wild. Any freelancer whose work has been mangled by pedantic copywriters or editors justifying their jobs will find these indignant tirades especially gratifying. To Ross: "I recently wrote, 'This is what I can only call a paradise of errors.' In the margin of my proof it was suggested that I change it to, 'This is what I can call only a paradise of errors.' You merely have to say that sentence out loud to see that it is not English, but sounds like the awkward sentence of a recently arrived foreigner." More gratifying still, Thurber is always right.

Thurber's childlike drawings may survive in popular memory more indelibly than his prose, and it is their very crudeness that makes them so disarming. Thurber himself recounts how White "once came upon me trying to shade in a drawing and said, 'Don't do that. If you ever became good, you would be mediocre.'"

Thus Thurber's latter years are tragic, if his correspondence shows little evidence of self-pity. Having lost one eye as a child, he suffers inoperable cataracts on the other. Poor eyesight gives way to blindness, and his days as an artist are over.

Impatient readers may find paragraphs beginning, "We are very content in our villa" best given a miss, for not all daily reportage profits posterity. Nevertheless, from these pages emerges an engaging talent who is fervent about his craft, decent to its aspirants, faithful as a friend, and—most importantly—funny.

The Thurber Letters: The Wit, Wisdom, and Surprising Life of James Thurber.
Edited by Harrison Kinney with Rosemary A. Thurber.
Simon & Schuster; 798 pages; $40

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About sponsorship

Isaac Newton

The god of science

Aug 21st 2003
From The Economist print edition

THE modern world was made by Isaac Newton. He expressed for the first time accurate laws of motion, the origins of colours, the existence and effects of gravity, and the fact that the same physical laws hold true throughout the universe. He shared, with Leibniz, the invention of calculus, though the two men brawled bitterly about it. As he watched bits of paper dancing with the effect of friction, he almost discovered electricity. He suspected, long before others proved it, that light was composed of both waves and particles. Because of him, men understood that both the immensely large and the infinitesimally small could be grasped by the mind and measured by arithmetic.

Isaac Newton
By James Gleick

Pantheon Books; 288 pages; $22.95.
Fourth Estate; £15

Buy it at
Amazon.com
Amazon.co.uk

Some poets thought that Newton's laws removed all magic and imagination from the universe. In fact, he had found a harmony and abstraction in all things that would have delighted the ancient Greeks. This universe was fluid, alive and changing constantly, despite its predictability. His laws proved so alluring that modern science is still unravelling their consequences, though we now know that they are only approximations. James Gleick's first book, “Chaos”, described how the scientific theory of chaos applies Newton's equations to complex situations, finding order in disorder. Even seemingly random occurrences give rise to new forms of order that Newton would have loved.

He himself, however, was no modern thinker. God remained behind his laws both as prime mover and as unmoved space. Ether lurked in the heavens, a magical and almost spiritual substance he could not pin down. His belief in invisible forces owed much to alchemy, a passion in which he dabbled to the end of his life, slowly poisoning himself by handling mercury. As an experimenter, he touched and tasted everything, and once thrust a bodkin in his eye to discover what colours he would see. The famous story of the apple grew largely after his death; he did not watch it fall, but simply drew a comparison across the scales between apple and moon, already knowing that the same law of attraction would apply to both. Yet a part of Newton was always rooted in rural Lincolnshire, watching nature and making his own tools to measure it, like any self-sufficient farmer's lad.

His character, at least as painted here, was almost pathologically solitary. At Cambridge, he rarely left his room. He had no friends, and was roused from his lonely musings and scribblings only to write vicious letters to those who seemed to have stolen his ideas. To other scientists, even the adoring Halley, he was curt and ungenerous. He seems to have acquired social graces, such as combing his hair, only after becoming Warden of the Mint in 1696.

But little of Newton's home life, if such it can be called, is given in this biography. And that seems right. Mr Gleick's book is more properly an essay or an appreciation of Newton's revolutionary work, written with enormous enthusiasm and verve and in a style that is often closer to poetry than prose. Whether Newton tied his stockings (he often failed to) or was ever “embroil'd with women” (the very thought repelled him) is irrelevant to the great laws he propounded.

Not many read his “Principia Mathematica”, of course, and even today his maths is a challenge for the layman. Mr Gleick, writing for an audience that may not be familiar with the connection of curves with equations, explains the fundamentals with clarity and grace. His ease with the science is the key to the book's delight, for it lets him swim and frolic in the subject with utter confidence. Yet it also points up a flaw in this approach to biography, for he frolics just as freely in the history of England, and on that subject often gets things wrong.

At the book's start, its beauty and conciseness seem bewitching; by the end, the reader begins to feel it may have been too easy and too thin.

Isaac Newton.
By James Gleick.
Pantheon Books; 288 pages; $22.95.
Fourth Estate; £15

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World hunger

Recipe for reform

Aug 21st 2003
From The Economist print edition

We grow enough food. So why do so many still go hungry?

FOR all the complaints about modern farming, agriculture is one of the great success stories of the post-war period: the world produces twice as much grain as it did in 1960, on only a third more land—enough to provide 2,700 calories a day for every person on the planet.

Yet, more than 800m people are still chronically malnourished, most of them in the developing world. As “Ending Hunger in Our Lifetime” argues, to say that hunger is strictly a distribution problem is like saying that if the rain fell evenly over the earth there would be no droughts; the origins of, and solutions to, this mismatch between food and hungry mouths are rather more complex.

Many of the hungry in poor places are farmers themselves. Their failure to grow—and earn—enough stems from a variety of reasons, from a lack of access to modern farming tools to environmental constraints to poor roads which prevent them from reaching markets. The book offers a clear explanation of the agricultural problems confronting the world's hungry. But its value lies in putting these physical challenges in a wider social context, looking at other factors, such as women's education, which affect household food security.

It also challenges popular misconceptions—for example, that patents on genes held by multinational companies are hampering farmers in developing countries; as the book argues, there are few patents on the current generation of high-tech crops in most desperately poor places. Lack of market incentives and funding, rather than intellectual property rights, are the real brakes on research into crops of greatest interest to the poor. “Ending Hunger in Our Lifetime” also provides a lucid discussion of the problems, and tremendous promise, of trade liberalisation and offers a robust critique of why those governments, in rich and poor countries alike, which aspire to self-sufficiency in food production, or turn to protectionism, end up hurting everyone, including their own.

The authors offer a number of sensible remedies to such ills, including different ways of boosting investment in public agricultural research and possible reforms at multilateral institutions such as the World Bank and the Food and Agriculture Organisation. One of the book's bolder proposals (one also advocated by *The Economist*) is the creation of a Global Environmental Organisation, to deal with a range of “green” issues, some of which relate closely to farming, and which are proving particularly tricky for the World Trade Organisation.

As the authors acknowledge, there is little chance of business-as-usual halving the number of hungry by 2015, a goal enthusiastically endorsed by world leaders in 1996. But with the right “pro-poor” policies, the book predicts that the number of malnourished children in the world could fall almost threefold, to 57m by 2025; if such steps are neglected, however, that number could rise to 178m, with Africa bearing the brunt.

Ending Hunger in Our Lifetime: Food Security and Globalization.
By C. Ford Runge, Benjamin Senauer, Philip G. Pardey and Mark W. Rosegrant.
Johns Hopkins University Press; 304 pages; $55 and £40.50 (hardback), $19.95 and £15 (paperback)

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New fiction

Dark words

Aug 21st 2003
From The Economist print edition

THE violence inflicted by man on man, and its lasting impact on the human mind, is the chilling theme of Pat Barker's civilised, unsensational quest. Her search for answers stretches from the early 1990s, when she published “Regeneration”, her wonderful part-fact, part-fiction trilogy on the psychological damage that resulted from the ultimate horrors of the trenches of the first world war, to the three slighter, but still totally absorbing novels, that she has published since.

Double Vision
By Pat Barker

Hamish Hamilton; 308 pages; £16.99.

Buy it at
Amazon.com
Amazon.co.uk

The wars in “Double Vision” are the regional ones of today. They lead to grief and to awful memories. But in the foreground of her story, there is also homegrown menace: a wicked deed done long ago, leaving the doer, Peter, in the shadows between evil and normality—though Ms Barker might question normality.

The hero, Stephen, is a foreign correspondent, back from the war in Afghanistan, which killed his photographer friend, Ben. Looking for peace in which to write a book on the ways that war is represented, he comes to a countryside blackened by clouds of oily smoke from the pyres of slaughtered foot-and-mouth suspects. He stays near his brother, but that family too has its quirks. When he asks his little nephew what kind of animals he likes, the child, who collects road-kill victims for their skulls, replies “Dead ones”.

Ben's widow, Kate, is nearby, bravely sculpting a huge, gaunt figure of Christ for the cathedral. Injured in a car accident, she unwisely hires the sinister Peter as her assistant. He joins her trailing clouds of unease from long-ago evils, the child-as-murderer theme that Ms Barker explored more thoroughly in her earlier novel “Border Crossing”.

Marriages, under threat in some of Ms Barker's other books, here have already broken up in one way or another. But there are new liaisons, bringing a welcome touch of cheer and comedy. The local vicar takes up with a gushy village lady, who had rolled in the mud trying to protect her sheep from the slaughterers, and now mourns the passing of her “boys”. When Kate tries to talk of her grief for her husband, “Angela gently, but firmly, reminded her that *she* had lost Thomas and William and Rufus and Harry. Yes, Kate had wanted to say, but Ben was my husband and they were like, well...SHEEP?”

Stephen himself falls for Justine, the vicar's daughter and his nephew's nanny. While not immediately alluring—she was “one of those flushed pink sturdy English girls who never make it past the first round of Wimbledon”—she fries eggs and bacon after an excellent night of love, doesn't mind getting her hair wet, and seems intended, not before time, to bring a dose of healthy sanity to a pretty bleak scene.

Ms Barker writes superbly, with economy and a lovely talent for darting images. The subject matter is dark, and much is left unsaid, but the reader is drawn on, from page to page. She abandons many loose ends untied, but that's not necessarily bad: it leaves one pondering on the difficult uncertainties she raises.

Double Vision.
By Pat Barker.
Hamish Hamilton; 308 pages; £16.99.
To be published in America by Farrar, Straus and Giroux in January 2004

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19th-century domesticity

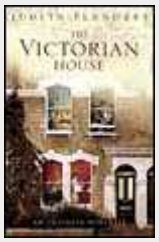
Wipe the floor

Aug 21st 2003
From The Economist print edition

MRS BEETON, in the opening sentence of her influential “Book of Household Management”, declared: “As with the Commander of an Army, or the leader of any enterprise, so it is with the mistress of a house.” What sort of establishment was it that resided in the solid, brick Victorian houses that still characterise so many British neighbourhoods? Six million such houses were built over 75 years, reflecting both the prosperity and the separation of work from home that arose in the burgeoning industrial age. New businesses and better transport meant that a man was more likely to work some distance away from home, leaving his wife to hold the domestic front.

Judith Flanders's examination of the Victorian house, room by room, reveals very clearly the society within: stratified, status-conscious, with its own rigorous codes and practices. Each room—the bedroom, nursery, kitchen, scullery and so on—is accorded a chapter. Drawing on contemporary diaries, novels and books of practical advice, she describes the furniture, decoration and accoutrements appropriate to each room, all of which lead on to an analysis of the behaviour and customs of the time.

The Victorian House: Domestic Life from Childbirth to Deathbed
By Judith Flanders



HarperCollins; 512 pages; £20

Buy it at Amazon.co.uk

The dining room gives rise to a discussion of ways of serving food, meal times (which changed with better lighting) and cooking (large carrots should be boiled for up to two hours, Mrs Beeton recommended). The sickroom not only allows for a survey of common diseases and their treatment, but also for a description of that monstrosity, Victorian mourning. A widow was expected to wear black for two years; after that she could look for something a little less sombre in the Mitigated Affliction department of one of the new stores. Pages on laundry (exceptionally labour intensive) are fascinating. So is drainage. Ms Flanders admits that she is more interested in S-bends than in sex.

Victorian house-dwellers all aspired to servants. The census of 1871 showed that Britain had 1.9m servants, of whom 93,000 were cooks and 75,000 nursemaids. A workhouse child would be paid £5 a year. Conditions were hard—heavy manual labour, little or no time off—and the duties clearly delineated, whether for blacking the grate or whiting the doorstep.

Ms Flanders is as acute on the social niceties and solecisms—the etiquette of leaving visiting cards was full of pitfalls—as she is on the position of the woman of the house. The wife's mission, apart from monitoring the servants, making useless beaded objects and keeping up social standards, was to ensure that her husband was untroubled by domestic matters. A little bit of knowledge, in order to keep abreast of men's conversation, was desirable, but to impart it was not. The heroine of one popular novel is “gradually brought to understand that the pinnacle of womanhood is the renunciation of the use of her intelligence”. “I have spoken with becoming infrequency, and chiefly about the Zoo. I find the Zoo is a subject which is almost certain to be received with approval,” wrote one American lady.

Rich and well-ordered, this study casts brilliant light on the world of Pooter and his predecessors. Curious facts tumble from the pages—that the aspidistra owed its popularity, for example, to its ability to withstand the fumes from gas lighting. Or that the clothes of a woman of fashion might weigh as much as 37lb. Or that before the creation of the mackintosh she was unable to go out in wet weather because umbrellas didn't cover her voluminous garb. Coat hangers were not invented until 1900, but flush loos were seen at the Great Exhibition of 1851. There were 178 toll gates around London which charged vehicles to enter the city: a taste of things to come.

There is, however, one striking omission, and that is men. This book, like the house, is a woman's

domain.

The Victorian House: Domestic Life from Childbirth to Deathbed.
By Judith Flanders.
HarperCollins; 512 pages; £20

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Animated film

The magic of Africa

Aug 21st 2003
From The Economist print edition

A parable not to be missed

WHEN Disney went African in 1994 with “The Lion King”, it never suspected that a finer, truer African animation was already in production. “Kirikou and the Sorceress”, filmed over five years by the French-born, Guinea-raised Michel Ocelot, draws on Senegalese folk stories to tell a morality tale that today entrances audiences from six to 60.

A west African village is terrorised by a sorceress, who has eaten the men, dried up the river and now demands tribute in gold. Kirikou, unborn when the film begins, knocks insistently on his mother's womb, determined to sort things out. In the original folk story, Kirikou kills the sorceress. Here he neutralises her power by removing the poisoned thorn that drives her to be evil. And he grows up mighty fast: barely born, he asks her for a kiss that turns him into an instant marriage partner.

“Kirikou” looks different from almost any live-action film because of the way it captures the vibrancy of Africa—the flame trees blazing against an azure sky, the emerald forest, the scorched savannah. But the aim is only partly realist. Conjured up, too, is the *faux-naïf* quality of the French 19th-century artist, Le Douanier Rousseau.

The squirrels, hyenas, warthogs and Venus flytraps spring to life. And moments in the film achieve a pathos not seen since “Bambi”; the mother's anguish when she thinks her son is dead and the village woman's cry when her house is consumed by fire. There are touches of humour, too, especially when Kirikou, disguised as a female bird, has to fight off the attentions of a clamorous male suitor.

“Kirikou and the Sorceress” has taken time to achieve worldwide release. Now that it is here, you can eat your heart out, Tokyo, currently basking in the Oscar-winning “Spirited Away”. Africa has you licked.

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Political film

Shooting history

Aug 21st 2003
From The Economist print edition

This is how you make a documentary

AFTER being broadcast to great acclaim in 15 countries, the three-part chronicle of the collapse of Slobodan Milosevic's regime, by British producers, Norma Percy and Brian Lapping, is finally getting an airing in America. “The Fall of Milosevic” is the ultimate response to anyone who makes a habit of arguing that television is dumbing down. Subtle and rich, it melds the voices of those whose lives were unmade by history in the Balkans with those who had a hand in its making.

That means everyone: President Bill Clinton, Tony Blair, all the Russians that counted, all the top Albanians and top Serbs too. On the failure of the Russian military to tell Igor Ivanov, the foreign minister, about the plan to fly thousands of troops to Kosovo, Sergei Stepashin, the former premier, says simply: “Ivanov? He's just a diplomat. He knows nothing.”

Only Mr Milosevic, on trial at the war-crimes tribunal in The Hague, was unable to participate directly. But there are plenty to speak for him, including his wife who thought NATO's bombing campaign would last one night, “and then life would go back to normal.” There is also a Mrs Spahic talking about the death of her pregnant daughter-in-law during a mistaken NATO cluster-bomb attack on the city of Nis; and Bali Thaci, a teacher from Kosovo, who filmed the freshly killed and mutilated bodies of his family on his camcorder.

“The Fall of Milosevic” highlights some of the problems of making political documentaries. The film was shot just after the fall of Mr Milosevic, which meant senior Serbs could talk freely, as could the Russians. Had the producers waited much longer they would have missed their chance. Many of the interviewees, including former Serbian premier Zoran Djindjic, are dead, in prison or on the run.

Perspectives too change quickly. That the British managed to reconcile American and European points of view over Kosovo makes you realise how much simpler the world was then. Ms Percy and Mr Lapping are now focusing their attention on a new project, “Pax Americana”, about the diplomacy leading to the war in Iraq. After disentangling the squabbling Balkans, that should be a piece of cake.

“The Fall of Milosevic” will be screened in America on the Discovery Times channel on August 26th and 27th, and September 15th, 16th and 17th

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Sérgio Vieira de Mello

Aug 21st 2003
From The Economist print edition

AP

Sérgio Vieira de Mello, the UN's top man in Iraq, died on August 19th, aged 55

ALL that is necessary for evil to triumph, said the Irish philosopher Edmund Burke, is for good men to do nothing. Sérgio Vieira de Mello lived as if he had taken this dictum to heart. Few other people have devoted such boundless energy to so many good causes. The last of these, and the one which was to cost him his life, was the struggle to rebuild Iraq, where he was the United Nations secretary-general's special envoy.

In the month before he was murdered, by an unknown bomber in Baghdad, he visited six neighbouring countries—Egypt, Iran, Jordan, Kuwait, Saudi Arabia and Syria—to try to persuade their rulers to support Iraq's transition to democracy. The rulers were reluctant, because America's occupation of Iraq is so unpopular with other Arabs, and because some of them fear that a functioning democracy on their doorstep would pose a threat, by example, to their own authoritarian regimes. Mr Vieira de Mello was not discouraged, however. He was not the type.

He was, he said, a diplomat who “liked to get his boots dirty from time to time”. In a career with the UN that lasted for three decades, he was posted to a variety of tough spots. He was in Bangladesh when it broke bloodily away from Pakistan, in Cyprus after Turkey invaded, in Mozambique during its civil war, in Peru under military rule and in Lebanon when Israeli tanks rumbled across the border. He occasionally quipped that he had built his career by treading on minefields—sometimes literally, as when he helped organise de-mining in Cambodia.

Last year, he was promoted to be high commissioner for human rights, but he was best known for his work in shattered war zones. He was briefly the UN's chief envoy to Kosovo, after NATO bombers drove the Serbian army out of the former Yugoslavian province in 1999. Then he was sent to East Timor, an Indonesian colony in the last phase of its struggle for independence. As the Indonesian troops left, they killed and burned in the hope of crippling the young state. Mr Vieira de Mello's job was to clean up the mess, and to guide East Timor to its first democratic elections.

Kofi Annan, the UN secretary-general and Mr Vieira de Mello's mentor, packed him off with the words: “I want you to be my little Nelson Mandela.” The parallel was not exact; Mr Vieira de Mello did not spend 27 years in jail. But like Mr Mandela, he helped to create a democratic state from the rubble of an oppressive one, and then, when he was no longer needed, made a graceful withdrawal from the scene.

His experiences in Kosovo and East Timor made him an obvious choice to represent the UN in Iraq. He agreed to go for four months, after which he planned to return to his human-rights duties. Baghdad, he told *O Estado de S. Paulo*, a Brazilian daily, in his last interview, was not his riskiest assignment. “I don't feel in danger as I did in other places where I was working for the UN. I don't feel a climate of hostility.”

A life of bustle and charm

Sérgio Vieira de Mello was born on March 15th 1948, in Rio de Janeiro. He left his beautiful home city when he was 17, to study philosophy at the Sorbonne in Paris. While he was there, the Brazilian embassy in Paris kept a file on him, perhaps because of his student activism, and perhaps because he was the son of an ambassador who had been banned from public service by Brazil's military government in the 1960s, for alleged leftist sympathies.

Understandably, given such a background, he never wanted to become a Brazilian diplomat, but he was instantly recognisable as a certain kind of Brazilian abroad. It wasn't just the silver hair, though that is as Brazilian as *caipirinha* (a cocktail made with cane liquor). It was the combination of easy charm, a worldly sophistication, a sharp mind and a pragmatic approach to solving problems.

As a Brazilian, he had a keen sense of the injured pride that can be felt by peoples who are less fortunate than Americans or western Europeans. In Mr Vieira de Mello's interview with *O Estado de S. Paulo* he said: “This must be one of the most humiliating periods in history [for Iraqis]. Who would like to see their country occupied? I would not like to see foreign tanks in Copacabana.”

He said that Iraqis admired Brazil, for reasons he did not wholly understand, though it had something to do with football, and that this helped him a lot in his work. Because Iraq is largely under American control, however, he never had the free hand he had enjoyed in East Timor, where he had had carte blanche to name ministers and set up institutions such as the parliament and central bank.

In Iraq, his role was more in the background, urging American and British administrators to do more to restore electricity and water supplies, and coaxing outsiders to help more or, at least, hinder less. He argued that the occupying powers' top priority should be to speed up the establishment of an Iraqi police force. “No foreigner,” he said, “can impose security.”

Sadly, he was right. On August 19th, a yellow cement truck exploded outside the UN's headquarters in Baghdad. At least 20 people were killed. Mr Vieira de Mello lay trapped, alive, in the rubble for several hours before he, too, died. Evil triumphed, at least temporarily.

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Overview

Aug 21st 2003
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The threat of deflation in **America** remains, for now, just a threat. American consumer prices rose by 0.2% in July. Annual inflation was 2.1% in the year to July, unchanged from June. Producer prices rose by 0.1% in July, compared with a rise of 0.5% in June. That slowdown was caused mainly by smaller rises in energy prices.

American industrial output rose by 0.5% in July. In the 12 months to July, however, it fell by 1.4%.

America's **stockmarkets** are having a good summer. The Dow Jones Industrial Average hit a 14-month high and the NASDAQ a 16-month high. The NASDAQ is up by 58% since its trough in October 2002, and by 32% since the beginning of 2003.

In the year to the second quarter, **euro-area** GDP grew by only 0.4%. Industrial production in the euro area fell by 1.6% in the 12 months to June, thanks partly to the strength of the euro. Consumer-price inflation slowed from 2.0% in the year to June to 1.9% in the year to July, owing to the biggest monthly fall in prices in two years. Falling food prices played a role, but analysts expect them to rise again in the third quarter as a result of the recent heatwave.

France's GDP fell by 0.3% in the second quarter, the biggest quarterly contraction since the fourth quarter of 1995. The fall in output took in lower consumer spending, exports and investment. In the year to the second quarter, GDP fell by 1.3%.

The **Dutch** economy contracted by 0.9% in the year to the second quarter, the third consecutive quarterly decline. Rising government spending was the only growing part of the Dutch economy. Industrial production in **Belgium** fell by 5.9% in the year to June.

Canada's consumer prices rose by 0.1% in July. In the 12 months to July, consumer-price inflation slowed to 2.2%, its slowest level in a year, thanks to a weak economy, the effects of SARS and the strong Canadian dollar.

After falling against the euro for most of the year, the American **dollar** has now bounced back to *euro*0.90, a four-month high. The dollar has risen by 7% against the euro since May.

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Output, demand and jobs

Aug 21st 2003
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% change on year ago

	GDP latest		GDP qtr*	The Economist poll GDP forecasts 2003	2004	Industrial production latest		Retail sales (volume) latest		Unemployment % rate latest		year ago
Australia	+ 2.9	Q1	+ 2.8	+ 2.8	+ 3.5	nil	Q1	+ 3.6	Q2	6.2	Jul	6.2
Austria	+ 1.0	Q1	+ 0.7	+ 0.5	+ 1.3	– 1.9	Dec	+ 7.4	Apr	4.4	Jul	4.3
Belgium	+ 1.4	Q1	+ 0.7	+ 0.7	+ 1.6	– 5.9	Jun	+ 1.7	May	13.0	Jul†	11.8
Britain	+ 1.8	Q2	+ 1.3	+ 1.8	+ 2.4	+ 2.2	Jun	+ 6.0	Jun	5.0	Jul††	5.1
Canada	+ 2.6	Q1	+ 2.4	+ 2.2	+ 2.9	– 0.5	May	+ 3.2	May	7.8	Jul	7.6
Denmark	+ 1.2	Q1	+ 1.4	+ 1.1	+ 2.1	– 0.5	Jun	+ 2.2	Jun	6.2	Jun	5.0
France	nil	Q2	– 1.3	+ 0.8	+ 1.9	– 0.9	Jun	– 2.0	May	9.5	Jun	9.0
Germany	– 0.2	Q2	– 0.2	nil	+ 1.2	– 2.1	Jun	– 0.5	Jun	10.6	Jul§	9.8
Italy	+ 0.3	Q2	– 0.4	+ 0.5	+ 1.5	– 1.7	Jun	+ 1.2	May	8.7	Apr	9.0
Japan	+ 2.1	Q2	+ 2.3	+ 0.9	+ 0.9	+ 2.8	Jun	– 1.8	Jun	5.3	Jun	5.4
Netherlands	– 0.9	Q2	– 2.1	– 0.2	+ 1.2	– 3.2	Jun	– 1.1	Apr	5.4	Jul**	4.1
Spain	+ 2.1	Q1	+ 2.0	+ 1.9	+ 2.6	+ 4.5	Jun	+ 3.2	Jun	11.4	Jun	11.3
Sweden	+ 1.3	Q2	+ 1.2	+ 1.4	+ 2.2	– 1.1	May	+ 7.0	Jun	4.8	Jun†	4.0
Switzerland	nil	Q1	– 1.0	– 0.1	+ 1.3	+ 0.9	Q1	+ 1.1	May	3.6	Jul†	2.4
United States	+ 2.3	Q2	+ 2.4	+ 2.3	+ 3.4	– 1.4	Jul	+ 5.2	Jun	6.2	Jul	5.8
Euro area	+ 0.4	Q2	nil	+ 0.6	+ 1.7	– 1.6	Jun	+ 0.4	May	8.9	Jun	8.4
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 1.2	Q1	– 4.9	na	na	– 3.8	Jun	+ 2.2	Jun	7.9	Jul†	7.8
Greece	+ 4.4	Q2	+ 0.4	na	na	+ 2.8	Jun	na		na		na
Iceland	+ 3.3	Q1	na	na	na	– 0.3	2002	na		3.0	Jul†	2.3
Ireland	+ 0.5	Q1	na	na	na	– 0.8	Jun	– 2.2	May	4.8	Jul	4.4
Luxembourg	+ 1.1	2002	na	na	na	– 0.8	May	– 1.6	Mar	3.5	Jun	2.6
New Zealand	+ 3.6	Q1	+ 3.3	na	na	+ 4.2	Q1	+ 5.1	Q2	4.7	Q2	5.2
Norway	+ 0.6	Q1	+ 1.3	na	na	– 6.4	Jun	+ 5.4	Jun	4.7	Q2	4.0
Portugal	– 1.2	Q1	+ 0.3	na	na	– 2.2	Jun	– 2.2	Jun	6.2	Q2†	4.5

*% change on previous quarter at an annual rate. †Not seasonally adjusted. ††Apr-Jun; claimant count rate 3.1% in July. §EU harmonised rate 9.4% in July. **Apr-Jun.

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Prices and wages

Aug 21st 2003
From The Economist print edition

% change on year ago

	Consumer prices latest		Consumer prices year ago	The Economist poll consumer prices forecast 2003	The Economist poll consumer prices forecast 2004	Producer prices latest		Producer prices year ago	Wages/earnings latest		Wages/earnings year ago
Australia	+ 2.7	Q2	+ 2.8	+ 2.7	+ 2.3	+ 0.2	Q2	– 1.1	+ 5.5	Q2	+ 3.7
Austria	+ 1.1	Jul	+ 1.6	+ 1.2	+ 1.1	+ 1.2	Jul	– 1.0	+ 2.1	Jun	+ 2.4
Belgium	+ 1.5	Jul	+ 1.3	+ 1.3	+ 1.1	– 0.9	Jun	+ 0.4	+ 1.7	Q2	+ 2.6
Britain	+ 3.1	Jul	+ 1.5	+ 2.7	+ 2.4	+ 1.4	Jul	+ 0.3	+ 3.1	Jun	+ 3.9
Canada	+ 2.2	Jul	+ 2.1	+ 2.8	+ 1.9	– 2.7	Jun	– 1.1	+ 3.5	May	+ 2.8
Denmark	+ 1.9	Jul	+ 2.2	+ 2.2	+ 1.8	– 0.1	Jul	– 0.9	+ 3.9	Q1	+ 4.0
France	+ 1.9	Jul	+ 1.6	+ 1.8	+ 1.3	+ 0.9	Jun	– 1.4	+ 2.7	Q2	+ 3.9
Germany	+ 0.9	Jul	+ 1.2	+ 0.9	+ 0.5	+ 0.4	Jul	– 0.8	+ 1.2	May	+ 3.0
Italy	+ 2.7	Jul	+ 2.2	+ 2.4	+ 1.9	+ 1.5	Jun	– 0.5	+ 1.7	Jun*	+ 2.3
Japan	– 0.4	Jun	– 0.7	– 0.4	– 0.4	– 0.7	Jul	– 2.1	+ 2.7	Jun	– 1.8
Netherlands	+ 2.2	Jun	+ 3.4	+ 2.3	+ 1.7	+ 2.5	Jun	– 2.2	+ 2.8	Jun	+ 3.4
Spain	+ 2.8	Jul	+ 3.4	+ 3.0	+ 2.5	+ 0.9	Jun	+ 0.2	+ 4.9	Q1	+ 4.0
Sweden	+ 1.8	Jul	+ 2.2	+ 2.2	+ 1.6	– 1.6	Jun	– 0.6	+ 2.1	May	+ 4.5
Switzerland	+ 0.3	Jul	nil	+ 0.7	+ 0.6	– 0.7	Jun	– 1.7	+ 1.8	2002	+ 2.5
United States	+ 2.1	Jul	+ 1.5	+ 2.1	+ 1.3	+ 3.0	Jul	– 1.2	+ 3.1	Jul	+ 2.9
Euro area	+ 1.9	Jul	+ 2.0	+ 1.8	+ 1.3	+ 1.4	Jun	– 0.9	+ 3.0	Q1	+ 3.3
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 0.4	Jul	+ 1.8	na	na	– 2.6	Jul	– 1.3	+ 4.3	Q2	+ 3.9
Greece	+ 3.6	Jul	+ 3.3	na	na	+ 3.1	Jun	+ 0.3	na		na
Iceland	+ 2.0	Aug	+ 3.2	na	na	+ 3.3	Aug	+ 6.2	+ 5.6	Jun	+ 6.9
Ireland	+ 3.1	Jul	+ 4.3	na	na	–10.6	Jun	– 1.9	+ 7.1	Q1	+ 6.9
Luxembourg	+ 1.6	Jul	+ 2.0	na	na	+ 2.1	Jun	– 1.3	– 2.8	May	+ 0.8
New Zealand	+ 1.5	Q2	+ 2.8	na	na	– 1.3	Q1	+ 2.8	+ 2.3	Q2	+ 2.1
Norway	+ 1.5	Jul	+ 1.6	na	na	+ 6.3	Jul	– 9.4	+ 5.3	Q1	+ 4.6
Portugal	+ 2.9	Jul	+ 3.4	na	na	– 0.4	Jul	+ 0.5	nil	Jun	+ 0.5

*New series.

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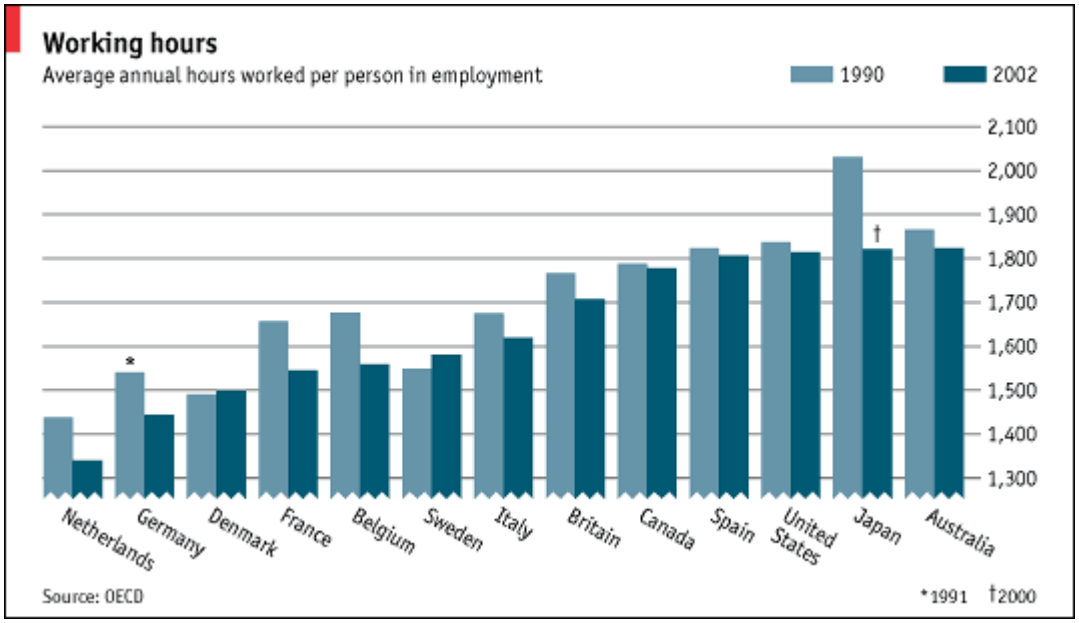
Working hours

Aug 21st 2003
From The Economist print edition



Since 1990 average working hours have dropped sharply in Japan and in most European countries, but have scarcely fallen in America. The gap in work effort is now the single biggest reason why GDP per head is lower in the European Union than in the United States. By contrast, lower productivity is the main reason why other OECD countries are less prosperous than America.

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Money and interest rates

Aug 21st 2003
From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (Aug 20th 2003)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+ 8.7	+13.0	Jun	4.83	4.96	4.82	5.46	5.73	6.15
Britain	+ 8.1	+ 7.5	Jul	3.44	3.94	4.04	4.56	4.69	5.81
Canada	+ 8.0	+ 7.4	Jun	2.76	2.87	2.98	4.82	5.10	6.64
Denmark	+10.5	+10.1	Jun	2.30	3.60	2.86	4.33	4.85	5.55
Japan	+ 5.0	+ 1.8	Jul	0.01	0.02	0.17	1.42	1.26	1.43
Sweden	+ 3.3	+ 5.0	Jun	2.72	4.14	3.32	4.70	5.13	3.89
Switzerland	+23.7	+ 9.1	Jul	0.25	0.79	0.12	2.62	2.94	3.00
United States	+ 6.8	+ 8.5	Jul	1.05	1.69	1.80	4.35	4.69	6.09
Euro area†	+11.5	+ 8.3	Jun	2.14	3.35	2.52	4.13	4.57	4.17

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. Benchmarks: US 30-year 5.28%, Japan No.252 1.44%. Central bank rates: US fed funds 1.00%, ECB refinancing 2.00%, BOJ overnight call 0.002%, BOE repo 3.5%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, Stockholmsbörsen, UBS, Global Insight, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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About sponsorship

The Economist commodity price index

Aug 21st 2003
From The Economist print edition

1995=100

	Aug 12th	Aug 19th*	% change on one month	% change on one year
Dollar index				
All items	78.0	78.3	+ 3.8	+ 7.7
Food	77.6	77.6	+ 3.8	+ 2.2
Industrials				
All	78.7	79.3	+ 3.8	+16.1
Nfa†	81.9	82.5	+ 5.0	+15.2
Metals	76.0	76.6	+ 2.6	+16.9
Sterling index				
All items	76.8	78.0	+ 4.8	+ 3.7
Euro index				
All items	90.9	92.9	+ 6.3	– 5.2
Yen index				
All items	98.5	99.5	+ 4.0	+ 8.1
Gold				
$ per oz	359.40	360.80	+ 3.0	+17.0
West Texas Intermediate				
$ per barrel	31.89	30.75	+ 3.3	+ 3.1

* Provisional. † Non-food agriculturals.

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Stockmarkets

Aug 21st 2003
From The Economist print edition

Market indices

	Aug 20th	2003 high	2003 low	% change on one week	% change on record high	% change on Dec 31st 2002 in local currency	% change on Dec 31st 2002 in $ terms
Australia (All Ordinaries)	3,167.7	3,167.7	2,673.3	+ 0.5	– 7.9	+ 6.5	+25.0
Austria (ATX)	1,349.9	1,350.3	1,120.2	+ 1.9	–22.3	+17.4	+24.4
Belgium (Bel 20)	2,094.1	2,116.3	1,426.6	+ 2.8	–43.1	+ 3.4	+ 9.6
Britain (FTSE 100)	4,217.4	4,272.1	3,287.0	+ 0.9	–39.1	+ 7.0	+ 5.9
Canada (Toronto Composite)	7,491.1	7,491.1	6,228.6	+ 1.6	–34.2	+13.3	+27.6
Denmark (KBX)	207.6	207.6	145.0	+ 6.4	–31.2	+24.9	+32.2
France (SBF 250)	2,217.9	2,234.5	1,630.1	+ 2.1	–49.5	+ 8.0	+14.5
(CAC 40)	3,280.3	3,310.7	2,403.0	+ 2.3	–52.6	+ 7.1	+13.5
Germany (DAX)	3,501.2	3,507.2	2,203.0	+ 3.0	–56.6	+21.0	+28.3
Italy (BCI)	1,189.0	1,195.9	959.4	+ 1.1	–45.5	+ 8.9	+15.4
Japan (Nikkei 225)	10,292.1	10,292.1	7,607.9	+ 5.5	–73.6	+20.0	+20.4
(Topix)	1,001.1	1,001.1	770.6	+ 5.2	–65.3	+18.7	+19.1
Netherlands (AEX)	325.8	337.3	218.4	+ 3.3	–53.6	+ 1.0	+ 7.0
Spain (Madrid SE)	753.5	754.0	576.8	+ 2.3	–34.3	+18.9	+26.0
Sweden (Affarsvarlden Gen)	173.6	173.7	127.8	+ 2.8	–56.6	+19.5	+25.3
Switzerland (Swiss Market)	5,153.7	5,186.2	3,675.4	+ 2.5	–38.7	+11.3	+10.9
United States (DJIA)	9,397.5	9,428.9	7,524.1	+ 1.4	–19.8	+12.7	+12.7
(S&P 500)	1,000.3	1,011.7	800.7	+ 1.7	–34.5	+13.7	+13.7
(NASDAQ Comp)	1,760.5	1,761.1	1,271.5	+ 4.4	–65.1	+31.8	+31.8
Europe (FTSE Eurotop 300)*	899.5	902.7	682.7	+ 2.3	–47.2	+ 5.0	+11.2
Euro area (FTSE Ebloc 100)*	773.7	777.6	565.7	+ 2.6	–50.1	+ 7.7	+14.1
World (MSCI)†	903.2	907.3	710.8	+ 1.7	–37.7	na	+14.0
World bond market (Citigroup)‡	543.8	583.9	518.6	– 0.9	– 6.9	na	+ 3.5

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms. ‡Citigroup World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

Aug 21st 2003
From The Economist print edition

	Trade balance*, $bn latest 12 months		Current account $bn latest 12 mths		The Economist poll % of GDP, forecast 2003	2004	Exchange rate trade-weighted† 1990=100 Aug 20th	year ago	Currency units per $ Aug 20th	year ago	per £	per euro	per ¥100	Budget balance % of GDP 2003‡
Australia	− 10.8	Jun	− 20.8	Q1	− 5.1	− 4.6	83.6	72.5	1.51	1.84	2.41	1.68	1.28	0.2
Austria	+ 0.7	May	+ 2.0	Jun	+ 0.2	+ 0.1	103.1§	100.8	0.90	1.02	1.43	–	0.76	-1.3
Belgium	+ 18.7	Jun	+ 10.7	Mar	+ 4.6	+ 4.6	103.3§	100.0	0.90	1.02	1.43	–	0.76	nil
Britain	− 75.7	Jun	− 5.8	Q1	− 1.1	− 1.3	99.1	104.6	0.63	0.65	–	0.70	0.53	-1.9
Canada	+ 35.9	Jun	+ 13.9	Q1	+ 1.8	+ 1.6	83.6	76.1	1.40	1.56	2.23	1.56	1.19	1.1
Denmark	+ 9.8	Jun	+ 5.9	Jun	+ 2.6	+ 2.5	106.2	103.1	6.68	7.57	10.6	7.43	5.65	1.6
France	+ 6.2	Jun	+ 23.2	Jun	+ 1.4	+ 1.3	106.8§	102.9	0.90	1.02	1.43	–	0.76	-3.6
Germany	+129.4	Jun	+ 54.4	Jun	+ 2.1	+ 1.9	104.9§	99.8	0.90	1.02	1.43	–	0.76	-3.7
Italy	+ 3.6	May	− 16.6	Jun	− 0.5	− 0.4	76.1§	73.3	0.90	1.02	1.43	–	0.76	-2.4
Japan	+ 93.0	Jun	+112.6	Jun	+ 2.5	+ 2.7	130.2	136.8	118	119	188	132	–	-7.7
Netherlands	+ 30.1	Jun	+ 2.9	Q1	+ 2.2	+ 2.4	102.8§	99.0	0.90	1.02	1.43	–	0.76	-1.6
Spain	− 45.5	May	− 19.6	May	− 2.4	− 2.3	77.3§	75.0	0.90	1.02	1.43	–	0.76	-0.4
Sweden	+ 15.6	Jun	+ 11.5	Q1	+ 3.5	+ 3.4	79.6	77.3	8.31	9.33	13.2	9.24	7.03	0.7
Switzerland	+ 5.8	Jul	+ 32.8	Q1	+10.8	+10.6	111.6	114.0	1.39	1.50	2.21	1.54	1.17	na
United States	−529.6	Jun	−510.2	Q1	− 5.3	− 5.4	105.1	113.3	–	–	1.59	1.11	0.85	-4.6
Euro area	+ 80.4	Jun	+ 45.3	May	+ 0.6	+ 0.5	89.2	81.8	0.90	1.02	1.43	–	0.76	-2.5
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*													
Finland	+ 13.8	Jun	+ 10.3	Jun	na	na	82.2§	78.9	0.88	1.02	1.40	–	0.74	3.1
Greece	− 24.0	Jun	− 11.5	Jun	na	na	59.7§	58.0	0.88	1.02	1.40	–	0.74	-1.0
Iceland	nil	Jun	nil	Q1	na	na	98.1**	89.0	77.9	85.5	124	86.6	65.8	nil
Ireland	+ 36.5	May	− 2.1	Q1	na	na	95.2§	89.3	0.88	1.02	1.40	–	0.74	-0.8
Luxembourg	− 3.3	May	+ 1.8	Q1	na	na	103.3§	100.0	0.88	1.02	1.40	–	0.74	0.2
New Zealand	− 1.4	Jun	− 1.4	Q1	na	na	100.7	84.7	1.72	2.15	2.74	1.91	1.45	0.8
Norway	+ 27.4	Jul	+ 25.8	May	na	na	96.7	105.2	7.19	7.53	11.4	8.00	6.08	11.3
Portugal	− 12.6	May	− 8.5	May	na	na	92.9**	90.0	0.88	1.02	1.40	–	0.74	-3.2

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, May average. ‡OECD forecast. **IMF, April average.

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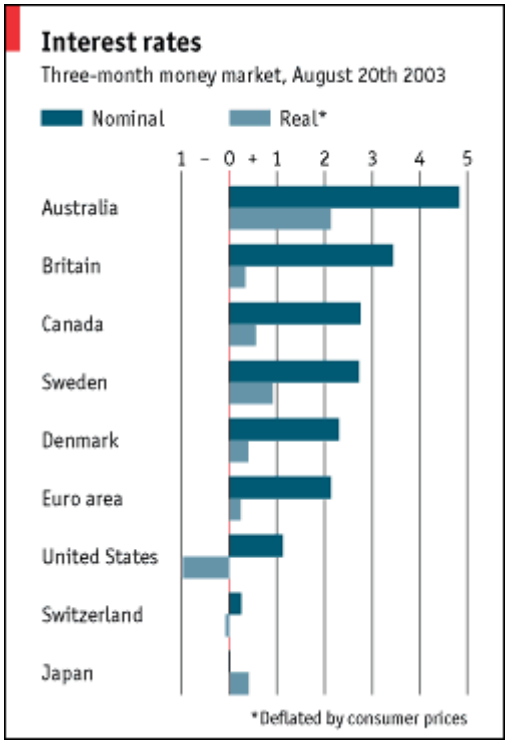
Interest rates

Aug 21st 2003
From The Economist print edition



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Overview

Aug 21st 2003
From The Economist print edition

Mexico's GDP grew by a lower-than-expected 0.2% in the year to the second quarter. The economy is growing more slowly than that of the United States, its main trading partner.

Brazil reduced its benchmark interest rate by 2.5 percentage points to 22%, in its latest attempt to boost the economy.

Taiwan's GDP shrank by 0.1% in the year to the second quarter, partly thanks to the effects of SARS.

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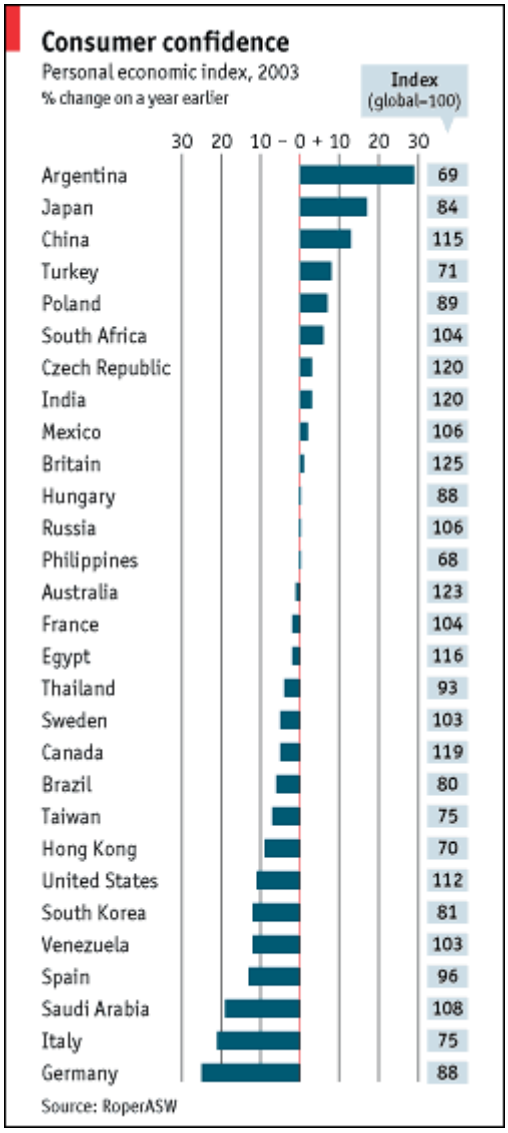
Consumer confidence

Aug 21st 2003
From The Economist print edition

Since the start of 2003 consumer confidence has risen faster in Argentina than in any other country, according to an index compiled by RoperASW, a research consultancy. Relative to levels of confidence in other countries, however, Argentina's consumers remain depressed, being barely more optimistic than their counterparts in the Philippines. The index is based on consumers' views as to whether their personal economic situation will improve over the next year, along with whether they think that now is a good time to buy the goods they need and want.



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Economy

Aug 21st 2003
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	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 6.7	Q2	+16.5	Jul	+ 0.5	Jul	+20.8	Jul	+35.4	2002	345.0	May
Hong Kong	+ 4.5	Q1	– 8.8	Q1	– 3.1	Jun	– 7.1	Jun	+18.4	Q1	112.6	Jul
India	+ 4.9	Q1	+ 5.7	Jun	+ 4.4	Jun	–11.9	Jun	+ 4.7	Q1	81.2	Jul
Indonesia	+ 3.4	Q1	+18.4	Mar	+ 5.8	Jul	+25.5	Jun	+ 7.5	Q4	33.0	Jun
Malaysia	+ 4.0	Q1	+ 8.6	Jun	+ 1.0	Jul	+17.0	Jun	+ 8.5	Q1	36.0	Jun
Philippines	+ 4.5	Q1	+ 2.6	May	+ 3.3	Jul	– 0.7	Jun	+ 3.1	Apr	13.0	Jul
Singapore	– 4.2	Q2	– 7.3	Jun	– 0.3	Jun	+12.9	Jun	+23.8	Q2	87.0	Jul
South Korea	+ 3.7	Q1	+ 7.8	Jun	+ 3.2	Jul	+ 9.1	Jul	+ 3.7	Jun	131.6	Jun
Taiwan	– 0.1	Q2	+ 2.1	Jun	– 1.0	Jul	+17.2	Jul	+26.9	Q2	182.2	Jul
Thailand	+ 6.7	Q1	+11.2	Jun	+ 1.8	Jul	+ 4.7	Jun	+ 8.7	Jun	36.7	Jul
Argentina	+ 5.1	Q1	+10.9	Jun	+ 7.3	Jul	+17.1	Jun	+10.1	Q1	13.5	Jul
Brazil	+ 2.0	Q1	– 2.1	Jun	+15.4	Jul	+21.8	Jul	+ 0.1	Jun	48.0	Jun
Chile	+ 3.5	Q1	+ 2.2	Jun	+ 3.1	Jul	+ 2.5	Jul	– 0.6	Q1	15.5	Jun
Colombia	+ 3.8	Q1	+ 3.3	May	+ 7.0	Jul	– 0.4	Apr	– 2.1	Q1	10.0	Jul
Mexico	+ 0.2	Q2	– 1.7	Jun	+ 4.1	Jul	– 6.5	Jun	–12.7	Q1	51.7	Jul
Peru	+ 5.7	Jun	+ 3.3	Jun	+ 2.0	Jul	+ 0.4	Jun	– 1.1	Q1	9.3	Jul
Venezuela	–29.0	Q1	–14.6	Apr	+31.9	Jul	+15.0	Q1	+ 9.5	Q1	11.9	May
Egypt	+ 3.1	2002†	+ 4.2	2002†	+ 3.9	May	– 7.1	Mar	+ 1.0	Q1	13.4	Jun
Israel	– 0.3	Q2	– 0.8	Jun	– 1.6	Jul	– 6.3	Jul	– 0.5	Q1	24.4	Jul
South Africa	+ 2.5	Q1	– 2.2	Jun	+ 6.7	Jun	+ 3.2	Jun	– 0.2	Q1	6.5	Jun
Turkey	+ 8.1	Q1	+11.7	Jun	+27.4	July	–18.1	Jun	– 3.5	May	28.6	Jun
Czech Republic	+ 2.2	Q1	+ 6.2	Jun	– 0.1	Jul	– 2.4	Jun	– 4.4	Q1	25.2	Jul
Hungary	+ 2.7	Q1	+ 2.8	Jun	+ 4.7	Jul	– 3.3	Jun	– 3.8	Jun	12.2	Jul
Poland	+ 2.2	Q1	+10.3	Jul	+ 0.8	Jul	–10.1	Jun	– 5.2	Jun	30.9	Jun
Russia	+ 6.8	Q1	+ 7.1	Jul	+14.0	Jul	+54.2	Jun	+36.4	Q2	63.9	Jul
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Pakistan	+ 3.6	2002†	+15.8	Nov	+ 1.4	Jul	– 1.2	Jul	+ 2.6	2002†	9.8	May
Saudi Arabia	+ 0.7	2002§	na		– 1.0	May	+38.6	2002§	+11.7	2002	22.8	May

*Excluding gold, except Singapore; IMF definition. †Year ending June. §Economist Intelligence Unit estimate.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

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Financial markets

Aug 21st 2003
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Aug 20th		Dec 31st 2002	
	Aug 20th	year ago	Aug 20th	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	13.2	na	1,511.7	– 1.5	+ 6.5	+ 6.5
Hong Kong	7.80	7.80	12.4	1.17	10,475.3	+ 1.7	+ 12.4	+ 12.4
India	45.8	48.5	72.9	4.94	4,056.6	+ 3.3	+ 20.1	+ 25.8
Indonesia	8,418	8,875	13,405	9.44	518.8	+ 1.5	+ 22.1	+ 29.8
Malaysia	3.80	3.80	6.05	3.10	732.2	+ 1.1	+ 13.3	+ 13.4
Philippines	55.2	52.0	87.9	7.44	1,242.9	– 1.6	+ 22.0	+ 18.1
Singapore	1.75	1.75	2.78	0.81	1,612.0	+ 1.3	+ 20.2	+ 19.5
South Korea	1,176	1,187	1,872	3.90	737.2	+ 3.4	+ 17.5	+ 18.5
Taiwan	34.3	33.9	54.5	1.05	5,543.6	+ 1.9	+ 24.5	+ 26.4
Thailand	41.6	42.1	66.3	1.27	521.1	– 0.8	+ 46.2	+ 51.3
Argentina	2.90	3.60	4.62	7.69	674.6	– 6.1	+ 28.5	+ 49.1
Brazil	3.00	3.09	4.78	24.34	14,476.1	+ 5.8	+ 28.5	+ 51.4
Chile	703	703	1,119	2.88	6,773.5	+ 2.5	+ 34.9	+ 38.3
Colombia	2,863	2,626	4,559	7.85	2,118.1	nil	+ 31.7	+ 31.8
Mexico	10.84	9.79	17.3	4.53	7,460.2	+ 1.2	+ 21.8	+ 17.6
Peru	3.48	3.57	5.54	2.87	1,880.6	+ 0.1	+ 35.1	+ 36.5
Venezuela	1,598	1,394	2,545	20.60	14,581.7	+ 1.4	+ 81.9	+ 57.9
Egypt	6.15	4.62	9.79	9.66	8,624.3	+ 2.0	+ 60.6	+ 21.0
Israel	4.45	4.64	7.09	4.06	409.8	– 0.5	+ 23.3	+ 31.5
South Africa	7.4	10.9	11.7	10.60	9,156.4	+ 0.9	– 1.3	+ 15.2
Turkey	1,396,000	1,632,500	2,222,990	31.00	11,557.0	– 3.0	+ 11.4	+ 32.5
Czech Republic	29.2	31.5	46.4	2.05	588.5	+ 2.3	+ 27.7	+ 31.8
Hungary	233	250	371	9.64	8,632.4§	+ 4.9	+ 10.7	+ 6.7
Poland	3.92	4.16	6.25	4.98	19,554.5	+ 3.1	+ 36.1	+ 33.0
Russia	30.3	31.6	48.3	16.00	516.8‡	+ 4.4	+ 36.6	+ 43.9
EMF (MSCI)*	1.00	1.00	1.59	na	366.4	+ 2.5	na	+ 25.5
EMBI+†	1.00	1.00	1.59	na	268.3	+ 2.0	na	+ 17.2

*Emerging Mkts Free. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡ In $ terms. § Aug 19th.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

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